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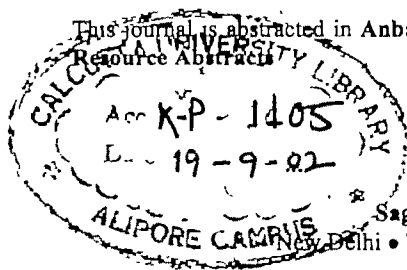
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Productivity Growth at the Firm Level: With Application to the Chinese Steel Mills

YANRUI WU

This article applies a stochastic frontier approach to examine the impact of firm-specific economic and policy factors or environmental variables on productivity growth, efficiency changes, scale economies and technological progress. Three hypotheses are tested with empirical application to the Chinese steel firms. The three hypotheses are: (a) firm-specific factors affect efficiency changes only; (b) firm-specific factors have a direct impact on the production structure particularly on the production frontier, and (c) firm-specific factors influence both efficiency changes and the production technology directly. The findings from this study provide insights into the determinants of productivity and efficiency changes in the Chinese steel industry.

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Accounting for the influence of environmental factors on productivity growth at the firm level has recently attracted much attention. In particular, the existing literature has focused on examining the impact of the environmental variables on efficiency changes. Authors like Kumbhakar, Ghosh, McGuckin, Battese and Coelli investigated the impacts of the level of farmers' education, the age of the head of the household and the size of farms on technical efficiency.¹ More recently, Coelli and others too measured the efficiency of international airlines by taking into consideration environmental factors such as network conditions and geographical factors.² The commonly used approach is to incorporate the environmental variables into the inefficiency term in models with error components, for example, the stochastic frontier models. The main drawback in this approach is its ignorance of the effect of environmental factors on the structure of the production technology. To overcome the problem described, this article proposes an alternative framework and applies it to a panel data set of Chinese steel firms. The

article begins with a review of the empirical literature on the efficiency of Chinese steel mills. This is followed by a description of the analytical framework. The empirical results and analyses are discussed in the third section. Interpretation of the findings is presented in the fourth section and the final section concludes with major findings.

Efficiency Studies of Chinese Steel Mills

The performance of Chinese steel mills has attracted continuous attention in the literature largely due to the availability of detailed statistics published in *China's Iron and Steel Yearbook*.³ Earlier studies on China's steel enterprise efficiency include contributions of authors like Jefferson, Kalirajan and Cao, and Wu.⁴ All three studies used the firm level data from *China's Iron and Steel Yearbook*. Jefferson estimated a translog production function using a data sample of 120 iron and steel enterprises in 1985.⁵ He found that the measured productivity of the enterprises under local government supervision was higher than that of the enterprises supervised by the central government. He also concluded that factors like firm scale, capital vintage, capital composition, product mix and the level of supervision as a whole accounted for 81 per cent of the variation in the calculated 'multifactor' productivity among the enterprises concerned. Jefferson basically followed the classical growth accounting approach, which assumes that production occurs on the frontier. Furthermore, his sample of 120 firms includes those producing iron ore, pig iron, steel products, industrial coke, ferroalloys and refractories. Heterogeneity of products may be a serious problem in data aggregation. Kalirajan and Cao⁶ estimated a stochastic frontier production function using a 1988 data sample of ninety-four iron and steel enterprises, which are included in the 120 firms used by Jefferson. They decomposed productive efficiency into technical, allocative and scale efficiencies, and found that the Chinese iron and steel industry on average achieved about 60 per cent of its potential output in 1988. Their findings also demonstrated that small firms are not inferior to large firms in terms of technical efficiency. One of the problems with those findings is that they are very sensitive to the estimation of shadow prices for both capital and labour.

As distinct from Jefferson and Kalirajan and Cao, Wu focused on the examination of enterprises' technical efficiency only so that problems with the estimation of shadow prices are avoided.⁷ The data sample used covers only eighty-seven firms that mainly produce pig iron, crude steel and finished steel products. Because the production process of

these products is relatively close in terms of factor intensity, technology and so on, data aggregation may be less problematic. He also followed a two-stage approach to investigate the relationship between efficiency and firm characteristics.

More recently, Wu and Zhang and Zhang examined the firms' performance in the 1990s.⁸ The common conclusion drawn is that Chinese steel firms on an average have been producing far below their potential output. For example, Wu, using panel data of sixty-one Chinese iron and steel enterprises, illustrates that Chinese firms achieved, on average, about 82 per cent of their potential output in 1992.⁹ This leaves scope for further improvement. However, according to Wu's estimates, the ten largest mills were relatively more efficient than the average firm in the sample. Zhang and Zhang, who analysed the 1995 industrial census data, confirm this finding.¹⁰ These existing studies also show that firm performance is related to scale, vintage, location and ownership. This article extends the existing literature on the topic in several directions. First, it applies a one-stage approach to study the impact of environmental factors on enterprise performance. Second, the environmental factors are assumed to affect both production technology and technical efficiency. Finally, this study focuses on the 1990s and employs a more homogeneous sample.

Analytical Framework

The econometric model used in this study is related to the concept of output-oriented technical efficiency first proposed by Farrell¹¹ and later popularised by Aigner, Lovell and Schmidt,¹² and then by Meeusen and van den Broeck.¹³ The panel data version of this model can be presented as follows

$$y_{it}^F = f(x_{it}, t), \quad t = 1, \dots, T \text{ and } i = 1, \dots, N \quad (1)$$

where y_{it}^F represents the frontier production level or best practice output for the i^{th} firm at time t , given technology $f(\bullet)$. Then, any observed output y_{it} , given inputs x_{it} , may be expressed as

$$y_{it} = y_{it}^F TE_{it} = f(x_{it}, t) TE_{it} \quad (2)$$

where TE_{it} indicates technical efficiency, defined as the ratio of the observed output to the best practice output. Equation (2) can be transformed into

$$y_{it} = f_t x_{it} + f_t + TE_{it} \quad (3)$$

where dotted variables denote percentage changes, and f_x and f_t represent the derivatives of $f(\bullet)$ with respect to x and t . Under constant returns to scale assumption, equation (3) is identical to the model developed by Nishimizu and Page.¹⁴ Without the assumption of constant returns to scale, equation (3) implies:¹⁵

$$TFP_{jt} = f_t + (\sum e_{ijt} - 1) \sum (e_{ijt} x_{ijt}) \sum e_{ijt} + TE_{jt} \quad (4)$$

where $e_{ijt} = \partial \log f / \partial \log x_{ijt}$ is the output elasticity of the j^{th} input x_{ijt} . Equation (4) decomposes total factor productivity (TFP) growth into three components: technological progress, scale economies and technical efficiency change. This decomposition extends the work by Solow.¹⁶

A popular empirical version of equation (2) is the logarithmic model

$$\log y_{jt} = \log f(x_{jt}, t) + v_{jt} - u_{jt} \quad (5)$$

where v_{jt} is a random error term and u_{jt} is a non-negative random variable which is assumed to capture technical inefficiency in production and to be independent of v_{jt} . This frontier framework has been extended to analyse the influence of firm-specific environmental conditions on productive performance. For example, Huang and Liu developed a model in which the environmental variables (z_{jt} 's) affect technical inefficiency in the following form: $u_{jt} = u_{jt}(x_{jt}, z_{jt}, t)$.¹⁷ Battese and Coelli also proposed a similar model in which $u_{jt} = u_{jt}(z_{jt}, t)$.¹⁸

A hybrid of the models suggested by Huang and Liu¹⁹ and Battese and Coelli²⁰ is employed in this study. Symbolically, the proposed model can be expressed as

$$\log y_{jt} = \log f(x_{jt}, z_{jt}, t) + v_{jt} - u_{jt}(x_{jt}, z_{jt}, t) \quad (6)$$

This model implies that firm-specific environmental conditions not only affect technical inefficiency, u_{jt} , but also the structure of technology, $f(\bullet)$. The estimation of model (6) is, however, complicated and controversial.²¹ The empirical investigation in this article considers the following five optional models:

1. Model A assumes the absence of environmental influences. This is a standard stochastic frontier model as proposed by Aigner, Lovell and Schmidt, and Meeusen and van den Broeck.²²
2. Model B assumes the presence of environmental influences on technical efficiency but their effect is neutral. This is the efficiency effect model considered by various other authors like Battese

and Coelli, Liu and Huang, Reifschneider and Stevenson, and Kumbhakar.²³

3. Model C assumes that environmental factors affect not only technical efficiency but also the technology of production. This model is an extension of model B. The environmental factors do not affect the 'slope' of the production frontier but have a 'shift' effect on the structure of technology.
4. Model D assumes non-neutral effects of environmental factors on technology. It is an extension of model C. In this model, the environmental factors not only have a 'shift' effect on the production frontier but also affect the 'shape' of the frontier curve.
5. Model E assumes non-neutral effects of environmental factors on both technology and technical efficiency. This model combines models C and D.

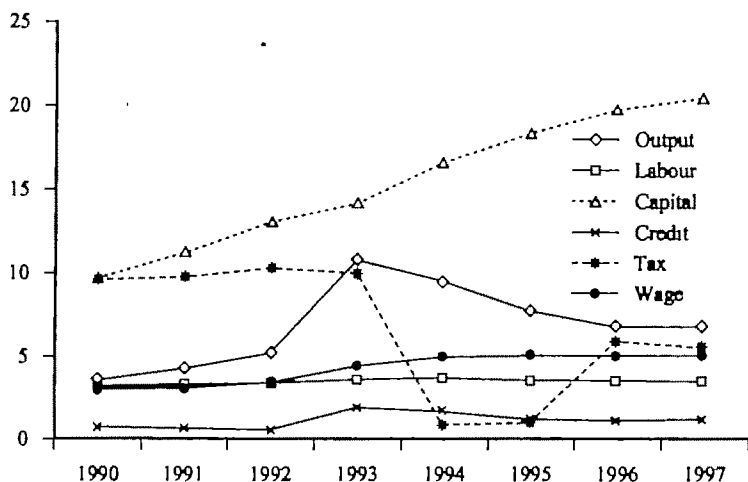
Models A and B can be estimated by the maximum likelihood approach as proposed by Aigner, Lovell and Schmidt, and Meeusen and van den Broeck.²⁴ The estimation of models C, D and E is, however, controversial.²⁵ For the purpose of comparison, a common approach, the maximum likelihood approach, is employed to estimate all five models. The statistical package adopted is FRONTIER.²⁶

Empirical Results and Analyses

Empirical Model and Data Issues

The empirical version of model (6) adopts a translog functional form. It is presented in the appendix. Given the estimates of the parameters in the empirical model, the percentage changes in technological progress, scale economies, technical efficiency and total factor productivity can then be computed. This empirical model is applied to a data set of 130 Chinese steel firms. Due to missing data, the final sample covers fifty-six steel firms and a period of eight years (1990–97).²⁷ In 1997 those firms together contributed 75 per cent of crude steel, 69 per cent of pig iron and 61 per cent of total finished steel products produced in China. Thus, the selected sample may be a good proxy of the steel sector in China. In the empirical analysis, *output* represents the value added; *capital* the value of the net fixed assets; and *labour* the number of employees. The choice of the environmental variables is constrained by the availability of data. Thus, three firm-specific variables, namely, *credit*, *incentive* and *tax* are chosen. Credit reflects the firms' accessibility to bank loans and

FIGURE 1
Summary Statistics of the Data Sample



Notes: The units of the variables are 100 million yuan for capital stock and output, 10,000 persons for labour input, percentage points for credit accessibility and tax rates, and 1,000 yuan for the average wage.

other sources of funds. As is well known, production in any developing country is often constrained and affected by the shortage of capital. Credit is measured by the ratio of working capital to total assets in a firm. Incentive is assumed to capture the impact of internal incentive systems on firms' performance. It is measured by the ratio of the mean wage in a firm to the average wage in the industry. Tax is introduced to assess the impact of institutional factors. It is measured by the actual rate of sales tax. In addition, a dummy variable representing the period 1990–93 is introduced into the regression. The division of the time period is partly dictated by the data covering eight years and partly due to the fact that the growth of the Chinese economy peaked during 1992 and 1993.

The mean statistics of the sample are presented in Figure 1. During the sample period, capital stock grew continuously and the average wage and employment increased only modestly. On average, the firms' output peaked in 1993 and then declined continuously up to 1997. The trend of the average sales tax rate has been declining during 1990–97. In

particular, during 1994 and 1995, the rate of sales tax fell dramatically due to some tax reform initiatives.²⁸

Estimation Results

The estimation results of the five models are presented in Table 1. Chi-squared statistics are employed to test the models against each other. As a result, model E cannot be rejected and is therefore used for the final analyses. It is noted that most coefficients in model E are statistically significant. With the estimates in Table 1, the rates of technological progress, productivity growth and changes in efficiency and scale economies are computed and presented in Table 2. According to this table, during 1991–97, total factor productivity growth averaged about 3 per cent with changes in scale economies being the overwhelmingly dominant contributor. The average rate of efficiency change has actually been negative during the period considered. On average, the firms performed better during 1991–93 than during 1994–97. The second period was characterised by gains in scale economies and reduction in tax.

In addition, the firms have also achieved an overall average efficiency score of 77 per cent.²⁹ This score is comparable with the mean efficiency of 75 per cent derived by Wu, who used panel data of the period 1984–92.³⁰ It is, however, higher than the mean efficiency score reported in Kalirajan and Chao and Wu.³¹ Those authors applied cross-section data of one single year (1988) and found that Chinese steel mills achieved only over 60 per cent of their potential output. Finally, according to the estimates, firms located in the central and coastal regions tend to perform relatively better. This is consistent with the observation that firms in those regions are relatively large in scale.

Winners, Losers, Leaders, Followers, Innovators and Fat Cats

The analysis in this section focuses on several special groups of firms. The mean performance indicators of these groups are illustrated in Table 3.

The Winners vs the Losers

The winners, defined as the best performers in terms of productivity growth, have gained substantially from scale economies and achieved above average technological progress. Their efficiency performance is also better than the sample average. It is worthwhile to note that nine of the top ten performers are firms controlled by the local governments.

TABLE 1
Estimation Results of Selected Models

	(A) Coefficient	t-ratio	(B) Coefficient	t-ratio	(C) Coefficient	t-ratio	(D) Coefficient	t-ratio	(E) Coefficient	t-ratio
Intercept	-0.174	-3.892	0.088	1.755	-1.172	-7.196	-1.131	-9.887	-1.341	-9.972
Dummy*time	0.067	8.929	0.053	6.322	0.058	7.234	0.045	5.180	0.042	4.679
Time	0.036	3.401	0.011	1.097	0.010	0.833	0.096	4.493	0.065	2.584
LnK	0.190	1.592	0.398	3.568	0.474	3.193	0.429	2.555	0.390	2.464
Time*lnK	-0.015	-0.799	-0.005	-0.268	-0.007	-0.386	-0.067	-2.999	-0.046	-2.060
LnL	0.948	6.462	0.651	4.830	0.556	3.635	0.815	3.113	1.290	6.027
Time*lnL	0.034	1.172	0.003	0.116	0.009	0.373	0.059	1.934	0.037	1.333
(lnK)*lnL	-0.790	-2.861	-0.169	-0.739	-0.111	-0.478	-0.346	-1.420	-1.172	-5.227
(lnK)*lnK	0.325	4.390	0.097	1.562	0.049	0.578	0.230	2.554	0.490	5.250
(lnL)*lnL	0.421	1.692	0.071	0.327	0.072	0.347	0.364	4.837	1.012	4.690
Credit*lnK							-0.368	-3.704	0.855	7.874
Credit*lnL							-0.053	-5.614	-0.041	-3.255
Credit*time							0.282	6.308	0.311	5.019
Credit					0.301	4.796	-0.179	-1.786	-0.364	-3.352
Incentive*lnK							-0.037	-0.182	-0.590	-3.748
Incentive*lnL							-0.001	-0.037	0.013	0.655
Incentive*time							0.699	6.376	0.990	7.186
Incentive					0.825	6.468	-0.005	-0.570	-0.019	-1.446
Tax*lnK							-0.001	-0.076	0.024	1.480
Tax*lnL										

Table 1 Contd.

Table 1 Contd.

	(A) Coefficient	t-ratio	(B) Coefficient	t-ratio	(C) Coefficient	t-ratio	(D) Coefficient	t-ratio	(E) Coefficient	t-ratio
Tax*time										
Tax										
Efficiency effect equation (μ_e)										
Intercept	-8.658	-1.333	1.149	16.705	-1.061	-4.277	-5.036	-1.348	-0.296	-1.579
Credit			-0.232	-7.562	0.288	4.962	0.418	1.250	0.036	0.441
Credit*lnK									0.786	5.796
Credit*lnL								-	-0.719	-2.926
Incentive			-0.647	-14.681	0.740	4.951	1.624	1.536	0.343	1.912
Incentive*lnK									0.072	0.580
Incentive*lnL									-1.075	-4.170
Tax			-0.002	-0.792	-0.002	-0.144	-0.162	2.268	0.002	0.116
Tax*lnK									-0.032	-1.258
Tax*lnL									0.055	1.511
σ^2	1.144	1.415	0.033	12.195	0.052	2.816	0.522	1.680	0.047	7.270
λ	0.971	44.912	0.333	3.485	0.640	2.398	0.973	63.381	0.857	21.195
Loglikelihood	42765		150.84		155.65		174.09		201.15	
Sample size = 448										

Notes: $\sigma^2 = \sigma_e^2 + \sigma_\eta^2$ and $\lambda = \sigma_e^2 / \sigma_\eta^2$ where σ_e^2 and σ_η^2 are the variances of v_{it} and w_{it} , respectively, as defined in equation (7).

TABLE 2
Average Rates (per cent) of Changes in Performance

	1991-93	1994-97	1991-97
Technological progress	3.51	-1.00	0.93
Scale economies	2.74	3.57	3.21
Technical efficiency	-2.61	-0.19	-1.22
Productivity	3.64	2.38	2.92

Source: Author's own estimates.

TABLE 3
Average Performance Indicators (per cent)

Firm Groups	Technological Progress	Scale Economies	Technical Efficiency	Total Factor Productivity
Winners	1.25	8.53	-0.76	9.02
Losers	-0.71	0.30	-2.62	-3.63
Leaders	1.05	1.37	-0.02	2.40
Followers	1.75	2.12	0.91	4.78
Innovators	2.69	3.82	-0.39	6.12
Fat cats	0.54	9.17	0.54	7.37
All firms	0.93	3.21	-1.22	2.92

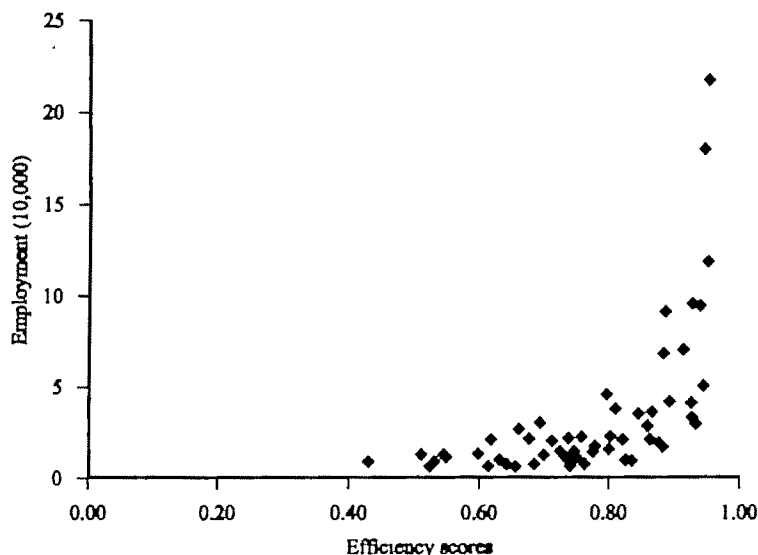
Notes: Figures for the 'winners', 'leaders', 'followers', 'innovators' and 'fat cats' are the means of the top ten firms in each category, and those for the 'losers' the means of the ten least performing firms. The sample means are reported in the 'all firms' row.

In contrast, six out of the ten worst performing firms are controlled by the central government. Not surprisingly, the worst performing firms, i.e., the losers, score poorly in all the studied areas, viz., technological progress, efficiency change and scale economies. In particular, these firms have shown relatively low efficiency scores and their efficiency performance has deteriorated significantly over time.

The Leaders vs the Followers

The 'leaders' are defined as the group with relatively greater efficiency scores, i.e., their production is closer to the frontier. The sources of productivity growth for these firms are technical progress and scale economies as seen in Table 3. The estimated results also show that the larger the firms the more efficient they are. In fact, among the ten best performers with the highest efficiency scores, seven belong to the ten largest firms in the

FIGURE 2
Relationship between Efficiency and Firm Scale



Chinese steel sector.³² This positive correlation between scale and efficiency is evident in Figure 2.³³ In a recent study of China's 1995 industrial census data, Zhang and Zhang also made the same observation.³⁴

The 'followers', i.e., firms that have shown the ability to rapidly catch up over time, have performed well above average. The sources of productivity growth for these firms are technological progress and efficiency gain. These firms tend to follow a more balanced growth path, i.e., they have made progress in all three areas: technological progress, efficiency improvement and gains in scale economies. It is clear that the followers are medium-sized firms controlled by either local governments or the central government.

The Innovators

The 'innovators' are those firms that have achieved the highest scores in technological progress. They are the medium-sized firms. They have shown above average efficiency performance. They seem to get preferential tax treatment, as the average tax rate (4.68 per cent) for the top ten 'innovators' is much smaller than the sample average (6.58 per cent).

TABLE 4
'Who Is Who' in the Chinese Steel Sector

<i>Rank</i>	<i>Winners</i>	<i>Losers</i>	<i>Leaders</i>	<i>Followers</i>	<i>Innovators</i>	<i>Fat Cats</i>
1	39	33	1	39	39	13
2	23	42	12	3	45	38
3	38	20	6	35	49	23
4	13	15	2	31	28	43
5	43	10	5	2	35	25
6	30	56	22	19	43	27
7	51	12	14	14	46	51
8	41	7	41	51	47	30
9	28	1	54	47	55	16
10	27	32	11	5	30	17

Notes: The first column presents the ranking of the firms' performance from number one to number ten. The numbers in other columns are the code of the firms in the sample, for example, firm No. 39 is the number one winner. In the sample, firms with codes from 1 to 21 are controlled by the central government and those with codes from 22 to 56 are controlled by the local governments, in particular, the provincial governments.

The Fat Cats

The 'fat cats' are those firms that gained the maximum from scale economies. They are characterised by easy access to credit and relatively low tax obligation. The local governments control most of these firms. They are, however, less efficient on an average. They are nicknamed 'fat cats' as they are protected by the local governments. Not surprisingly, the main source of productivity growth for these firms is their gain in scale economies.

Finally, the ten best and worst performers are listed in Table 4. It is interesting to note that some firms belong to more than one group. Firm No. 39, for example, is controlled by the local government and is ranked number one in all three categories—winners, followers and innovators. Number seven in the 'fat cats' group is a winner as well. Total factor productivity growth among these firms is mainly through their gain from scale economies.

Concluding Remarks

In this study, five alternative models have been proposed to account for the influence of environmental factors on productive performance at the firm level. The models are estimated and tested against each other by

applying the statistics from a panel of Chinese steel mills. Several observations are worthy of note:

1. This study has shown that environmental factors affect efficiency changes as well as the structure of production technology.
2. During 1990–97 the Chinese steel industry had achieved a rate of productivity growth of about 3 per cent. However, gain in scale economies was the dominant source of productivity growth. It is found that the innovators are medium-sized firms and are controlled by the local governments. On the other hand, the large firms are controlled by the central government. This may be due to the fact that the former tend to enjoy preferential tax treatment from their local authorities.
3. On average, firms controlled by the central government are found to be more efficient (i.e., the leaders) than their locally controlled counterparts. However, they are neither ‘innovators’ nor ‘winners’. This finding may have important policy implications. The Chinese government is keen on reforming the small and medium-sized firms but at the same time wants to maintain control over large-scale ones. On the one hand, this policy may stimulate innovation and technological progress among the medium-sized firms, as the main force of the innovator is freed. On the other, the central government’s control and protection of the large firms may lead to distortions in resource allocation and therefore impose constraints in innovation and technological progress.

Appendix

The empirical model can be expressed as follows:

$$\begin{aligned}
 \log Y_{it} = & \alpha_0 + (\beta_0 Dummy + \beta_1) t + (\beta_2 + \beta_3 t) \log K_{it} + (\beta_4 + \beta_5 t) \log L_{it} \\
 & + \beta_6 (\log K_{it})^2 + \beta_7 \log K_{it} \log L_{it} + \beta_8 (\log L_{it})^2 \\
 & + (\beta_9 + \beta_{10} t + \beta_{11} \log K_{it} + \beta_{12} \log L_{it}) Credit_{it} \\
 & + (\beta_{13} + \beta_{14} t + \beta_{15} \log K_{it} + \beta_{16} \log L_{it}) Incentive_{it} \\
 & + (\beta_{17} + \beta_{18} t + \beta_{19} \log K_{it} + \beta_{20} \log L_{it}) Tax_{it} + v_{it} - u_{it} \quad (A1)
 \end{aligned}$$

where Y_{it} represents output, K_{it} and L_{it} are inputs (i.e., capital and labour), $Credit_{it}$, $Incentive_{it}$ and Tax_{it} are three environmental factors, $Dummy$ is

a period dummy variable and v_{it} and u_{it} are defined in equation (5) with u_{it} being the non-negative truncation of the normal distribution $N(\mu_{it}, \sigma_{it}^2)$ where

$$\begin{aligned}\mu_{it} = & \zeta_0 + (\zeta_1 + \zeta_2 \log K_{it} + \zeta_3 \log L_{it}) Credit_{it} \\ & + (\zeta_4 + \zeta_5 \log K_{it} + \zeta_6 \log L_{it}) Incentive_{it} \\ & + (\zeta_7 + \zeta_8 \log K_{it} + \zeta_9 \log L_{it}) Tax_{it}\end{aligned}\quad (A2)$$

Given the estimates of the coefficients in equations (A1) and (A2), the rate of technological progress is calculated by differentiating equation (A1) with respect to t , that is,

$$\begin{aligned}TP_{it} = & d \log Y_{it} / dt \\ = & \beta_0 Dummy + \beta_1 + \beta_2 \log K_{it} + \beta_3 \log L_{it} \\ & + \beta_{10} Credit_{it} + \beta_{14} Incentive_{it} + \beta_{18} Tax_{it}\end{aligned}\quad (A3)$$

Furthermore, the percentage changes in scale economies, technical efficiency and total factor productivity can be computed as follows:

$$SE_{it} = \log (SE_{it} / SE_{it-1}) \quad (A4)$$

$$TE_{it} = \log (TE_{it} / TE_{it-1}) \quad (A5)$$

$$TEP_{it} = TP_{it} + SE_{it} + TE_{it} \quad (A6)$$

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Micro Enterprise Training for Low-Income Women: The Case of the Community Entrepreneurs Programme

COLETTE DUMAS

This article on the Centre for Women and Enterprise Community Entrepreneurs Programme (CEP) demonstrates the use of a case study as a research method. The CEP is an entrepreneurship training and education programme designed to help low-income women start their own businesses. This case analysis is an attempt to determine the initial outcomes of the community entrepreneurship programme. Evaluation results indicate that training provided to low-income women has indeed accomplished its goals—to help participants launch their own businesses, to empower them to achieve self-sufficiency through entrepreneurship and to advance the economic health of Boston's inner city neighbourhoods through micro enterprise and job creation. The evaluation findings suggest several implications for future practice and research on micro enterprise training and education programmes.

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In 1995, the Commonwealth of Massachusetts, in the United States, initiated the implementation of the country's most aggressive benefit programme for needy families. An estimated eleven thousand families in Massachusetts state, the majority of them female-headed households with children under 18 years, began the process of transitioning from being welfare recipients, to becoming workforce participants.¹

This article serves to illustrate the ways that programmes such as the Community Entrepreneurs Programme² are responding to the diverse needs of low-income women with a range of services. The majority of these low-income women not only need access to a variety of resources, they also require skill building in specific business areas before they initiate the process of doing business. Taking note of these, the CEP offers a wider variety of services than those found in any other traditional entrepreneur

development programmes. In order to attempt an increase in the economic options of low-income women, CEP and programmes like it serve as 'social training programmes', focusing on empowering women to manage their lives within the constraints of the new economy.³ Using the case study methodology, we have tried to evaluate the CEP's attempts in empowering low-income women and aid in determining the pilot programme outcomes.

The first part of the article provides an overview of the barriers to entrepreneurship generally faced by women belonging to low-income groups. A discussion of the role of micro enterprise training and development in facilitating the economic transition of low-income women to entrepreneurship follows. The next section profiles the Community Entrepreneurs Programme. This is followed by a discussion on the methodology of this study. The outcomes of the pilot project are then elaborated upon. The concluding part deals with the implications of this project both for practice and for research.

Barriers to Entrepreneurship

The barriers low-income women encounter include many of the same barriers women in general encounter when trying to start their own businesses. These include a lack of socialisation to entrepreneurship in the home, school and society, exclusion from traditional business networks, financial aspects of venture start-up and management,⁴ lack of access to capital and information, discriminatory attitudes of lenders, gender stereotypes and expectations, such as the attitude that women entrepreneurs are amateurs or hobbyists, socialised ambivalence about competition and profit, and lack of self-confidence.⁵

Low-income women and women on welfare encounter additional barriers. Many of the barriers are specific to their situation. Low-income women face restrictions on the amount of government aid they can have, which makes it extremely difficult for many to start business. They also face limitations in the number of hours they can work, the amount of health care and other assistance they receive as well as regulations that do not distinguish between personal and business assets. These barriers make it hard for many low-income women to support themselves.⁶ In addition, the majority of low-income women do not possess the training, resources and skills necessary to start businesses. A recent study on low-income micro entrepreneurs conducted by the Aspen Institute found that among the 53 per cent who moved out of poverty, many derived their income not from a micro business alone, but from a combination

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of self-employment and wages.⁷ The Community Entrepreneurs Programme was conceived to help low-income women overcome these barriers so that they could increase their economic options. The programme strategy included micro enterprise training and development.

Micro Enterprise Training and Development

Small-scale enterprise development is being seen as a viable strategy for 'creating economic opportunity for self-selected individuals who are low-income, unemployed, or receiving public assistance'.⁸ These micro enterprise training programmes appeal to both politicians and practitioners particularly the ones who are interested in eliminating welfare entitlements to individuals. They see such programmes as a way to help disadvantaged groups, those receiving public aid, so that they become economically self-sufficient. Micro enterprise development programmes focus on creating jobs, increasing the economic stability of individuals and communities, alleviating poverty, and increasing economic self-sufficiency. Encouraging micro enterprise development also has spin-off effects. Micro enterprises create jobs in a community; they provide for financial stability of neighbourhoods and also help in restoring and building communities through a philosophy of self-help.⁹

The Aspen Institute, a research organisation, estimates that there are nearly 350 micro enterprise development programmes and at least two million low-income micro entrepreneurs in the United States.¹⁰ The United States has experienced tremendous growth in small businesses, especially among very small businesses started by women and minority entrepreneurs.¹¹ Businesses owned by women now account for nearly 40 per cent of all American firms.¹² According to a study on global entrepreneurship conducted at the Kaufmann Centre for Entrepreneurial Leadership, micro enterprises employ, on an average, fewer than ten employees. However, they contribute significantly towards fuelling economic growth.¹³ Research conducted by the Institute for Women's Policy Research (IWPR) on the viability of self-employment as a strategy for alleviating poverty among recipients of Aid to Families with Dependent Children (AFDC) indicates that self-employment contributes to the economic well-being of families too.¹⁴ In addition, income from micro enterprise provides only a small part of the family's total income package.¹⁵ The majority of micro entrepreneurs, particularly the recipients of Transitional Aid for Families with Dependent Children (TAFDC), often pull together income from a variety of sources in order to survive.¹⁶

Micro enterprise training and development programmes have extended credit support of approximately \$126 million to micro entrepreneurs. They have assisted in the creation and growth of over fifty thousand businesses in the USA.¹⁷ Fifty-six per cent of the programmes provided support to TAFDC clients and the rest were for the low-income clients.¹⁸ The Small Business Administration's (SBA) micro loan programme has funnelled \$36 million to women micro entrepreneurs since 1992. The agency has further extended another \$10.45 billion in the form of larger loans to women-owned businesses during the same period. The SBA has also supported the establishment of eighty women's business centres. These centres provide training, technical assistance and loan counselling to women at various income levels.¹⁹

Outcomes of the Micro Enterprise Strategy

The outcomes that the micro enterprise strategy has produced are multiple. They range from mere job creation to increased self-esteem.²⁰ In most micro enterprise programmes, and particularly in ones like CEP, in which the credit component is de-emphasised, traditional economic development and lending criteria, such as loan repayment rates and business profitability, are necessary, but not sufficient to understand what programmes produce. As Lisa Servon at the University of Texas at Austin puts it, 'These measures tell only a small piece of the story of what these programs do.'²¹

The majority of low-income clients participating in micro enterprise training programmes show gains in income over time (55 per cent). It has also been noted that approximately one quarter of them had income gains which are large enough to take them out of poverty.²² Participants in micro enterprise development programmes are more likely than any other control groups to become self-employed and remain self-employed, experience significant asset accumulation and decreases in welfare assistance received, and create secondary employment opportunities.²³ This is possible if the micro enterprise programmes effectively target and reach large numbers of female clients.²⁴ It has been seen that approximately 78 per cent of the clients of the programme were women.²⁵ These programmes have helped women become self-employed by providing access to credit and entrepreneurship training. These are arenas in which women have long experienced various degrees of difficulty.²⁶ In addition to these barriers, some other barriers such as the lack of economic literacy also required addressing through special programmes designed to meet their specific needs.

**The Community Entrepreneurs Programme
Offered by CWE**

The Community Entrepreneurs Programme (CEP) is offered by the Centre for Women and Enterprise.²⁷ The centre is a not-for-profit educational organisation, with its headquarters in Boston. This programme exclusively focuses on women belonging to very low-income categories,²⁸ particularly those transitioning from welfare to self-sufficiency. Through a careful, comprehensive programme design, the Community Entrepreneurs Programme seeks to create an educational environment where the women entrepreneurs can gather to learn, establish networks, and provide mutual support to one another. The CEP is the most comprehensive programme of its kind in the United States. Currently, 98 per cent of the participants are from Boston's inner city neighbourhoods, and 25 per cent are former or current recipients of some form of public assistance. The Community Entrepreneurs Programme is in its pilot phase. The programme aims to:

1. make opportunities of new business growth available to those who need it most—underemployed or unemployed women who have been dreaming of running their own businesses and have not had an opportunity to actualise these dreams;
2. spur the growth of locally controlled businesses and create new jobs within Boston's inner city neighbourhoods;
3. help women build strong business and life management skills that will enable them to become leaders in their work and personal lives and become strong role models for their children and their communities;
4. empower women to use entrepreneurship as a strategy to achieve economic self-sufficiency and to improve the economic security of their families.

An overview of the specific phases of the Community Entrepreneurship Programme is provided in Table 1.

This hands-on programme was taught by successful entrepreneurs, and offered aspiring entrepreneurs lessons on evaluating and developing their business concepts. The inputs included sessions on business terminology, concept statements, market research, commodity/service pricing, revenue projections, start-up costs, feasibility and business plan development. The strategy included one-on-one support from a business advisor and peer support. The CEP has focused more on increasing

TABLE 1
Programme Structure

Phase	Focus	Instruction/ Classroom	Instructor/ One-on-One	Business Counselling	Client Services Manager	Mentor	Peer Groups	Other
I	Screening and orientation	2 sessions						
II	Getting ready	15 sessions	instructor office hours		Weekly check-ins; bi-weekly meetings		Meet weekly	Job placement as needed
III	Researching your idea	15 sessions		In-class business counsellors				
IV	Nuts and bolts	4 sessions		In-class business counsellors				
V	Opening the door	None			1-2 times a month, as needed	2 times a month		Other CWE courses
VI	Growth for the long term	12 sessions over		In-class business counsellors				

women's economic options rather than just limiting itself to extending credit. The focus of the programme as such remains more on the entrepreneur rather than on mere traditional economic outcomes.

The Community Entrepreneurs Programme has used a combination of strategies. These include asset building, role modelling and a comprehensive approach to education and business training, which includes personal empowerment and increased access to resources. These strategies are elaborated as under:

1. **Asset building** is the foundation of small business development. It is critical to poverty alleviation. By teaching economic literacy, credit repair and the strategies for increasing savings, the CEP seeks to place participants on the path towards asset building. In addition to the curriculum, the CEP is setting up Individual Development Accounts (IDAs) for each participant to begin a savings programme with the encouragement and assistance of matching funds. The CWE has a \$5,000 seed contribution from Citizens Bank for the IDAs, and is currently identifying private donors to provide additional matching funds.
2. **Peer Role Modelling:** The CEP is designed by and for women, and is run by an organisation dedicated to helping women entrepreneurs. Women who were formerly welfare recipients assist not just in curriculum development but take part even in teaching. These women serve as role models for participants by demonstrating how their goals and dreams can be attained. Weekly Business Action Groups (BAGS), made up of four to six participants, provide mutual support and networking opportunities to its members during the eighteen months of the programme.
3. **Comprehensive Approach:** The CEP attempts to develop a variety of skills in its participants. It imparts not only business skills but also leadership skills. By providing comprehensive education and training in conjunction with case management, the CEP aims to provide participants with intensive personal support as well. The participants of the CEP receive the necessary tools and support to launch their businesses. The CEP aims ultimately at breaking the cycle of poverty.

Study Methodology

This study was undertaken to document the outcomes of entrepreneurship training given to fifty-five participants of CWE's pilot phase

Community Entrepreneurs Programme. Information about the women was collected as they entered the programme. The Small Business Administration (SBA) intake form and the intake form created by the CWE were used to obtain information on the sample as well. The sample women were subjected to structured and semi-structured (open-ended) interviews and focus groups. These were conducted at the beginning of the programme and then again at the halfway stage of the two-year programme. The interviews provided insights through examining the role that the Community Entrepreneurs Programme played in client outcomes from the client's perspective. Interviews were used as a means to collect detailed feedback from the participants, particularly in obtaining information on parameters beyond easily measurable results.

The qualitative methodology used is the naturalistic or constructionist research paradigm.²⁹ Interviews were conducted and transcribed for analysis. The data was analysed through the constant comparative method of grounded theory³⁰ in which data generates the conceptual categories of properties that are constructed into a general theory. In the development of grounded theory, validity and reliability are ultimately determined by the closeness of fit between the data and the conclusions that are drawn. Therefore, the outcome categories are presented with quotes from participants as well as other information that describes the effect of the programme from participants' perspectives.

Demographics

Analysis of the information collected from participants via the intake forms revealed that the average age of respondents was 38. Table 2 brings out the educational level of CEP participants at the entry level.

Thirty-six per cent participants were college graduates and 4 per cent had received some college education. Six per cent had received education beyond college level. Fifty-four per cent had graduated from high school. It is well established that low-income women and would-be entrepreneurs require much more than access to credit in order to come out of poverty.³¹ Running a small business in the United States requires on the one hand some kind of exposure to education and on the other some dependable support network.³² Training, the foundation of the CEP, enables participants to learn basic business skills within a larger framework that teaches them to plan. They are thus encouraged to develop an orientation towards planning more broadly in all aspects of their lives, rather than only in the context of their businesses.

TABLE 2
Participant Education Level

<i>Level</i>	<i>Per Cent</i>
High-school graduate	54
Some college	4
College graduate	36
College+	6

TABLE 3
Gross Household Income

<i>Gross Household Income</i>	<i>Per Cent</i>
Under \$10,000	5
\$10,000-14,999	20
\$15,000-19,999	20
\$20,000-24,999	40
\$25,000-27,000	15

The profile of participants' proposed businesses included 36 per cent retail/service, 15 per cent professional, 3 per cent manufacturing, 3 per cent wholesale/distributor, and 42 per cent in the 'other' category. Twenty-five per cent of the participants responded that they required child care facilities during class hours (58 per cent of the participants had children under the age of 18), 28 per cent needed transport to attend the programme, while 39 per cent owned a car. The gross household incomes of the participants are indicated in Table 3.

Approximately 22 per cent of the participants received TAFDC (Transitional Aid to Families with Dependent Children), 18 per cent received Social Security Insurance (SSI), 31 per cent lived in government subsidised housing and around 7 per cent received food stamps (Table 4). The marital profile of the participants revealed that more than half of them (53 per cent) were single, 19 per cent were married, 4 per cent were widowed, 22 per cent were divorced and 2 per cent were separated from their spouses. These numbers indicate that a majority of these women are single mother heads of households with dependent children to support. The participants were mostly African-American. The ethnic distribution included 55 per cent African-Americans, 29 per cent white, 11 per cent other, 4 per cent Hispanic and 2 per cent Asian/Pacific Islander (Table 5).

TABLE 4
Individuals Receiving Public Assistance

<i>Type of Assistance</i>	<i>Per Cent</i>
Transitional Aid for Families with Dependent Children (TAFDC)	21.8
Social Security Insurance (SSI)	18.2
Food stamps	7.3
Not receiving public assistance	21.8
Subsidised housing	30.9

TABLE 5
Client Ethnicity

<i>Race and Ethnicity</i>	<i>Per Cent</i>
White	29
African-American	55
Asian/Pacific Islander	2
Hispanic	4
Other	11

Programme Goal Outcomes

The research using the case study method has tried to analyse the impact of the CEP³³ along the different parameters of the programme goals. The present section develops the analysis using the research methodology as described.

Programme Goal 1

Make the opportunities of new business growth available to those who need it most—underemployed or unemployed women who have been dreaming of running their own businesses and have not had an opportunity to actualise these dreams.

Over a twelve-month period, the CEP reached a total of 420 women in Boston's inner city neighbourhoods through a variety of presentations. Staff members from the CWE actively engaged with other community-based organisations. These included the Department of Transitional Assistance, Boston Housing Authority, and Codman Square Health Centre. The programme aimed at targeting sixty women for the pilot programme. The actual target was fifty-five. The profile of these fifty-five women taken up for the CEP included 78 per cent receiving some form of public assistance, such as TANF (Transitional

Assistance to Needy Families), food stamps, unemployment benefits and housing subsidies. The projected budget for the first year of the pilot programme was \$268,927. Total spending was \$232,414. Spending was slightly lower than the estimated budget as hiring staff was a challenge due to low unemployment. In addition, costs decreased because clients did not need as much transportation or child care as projected.

To understand the satisfaction of the first aim, i.e., making opportunities of entrepreneurship available to those who need it most, we must first understand what draws participants to this programme. The intake form revealed that participants identified three broad reasons:

1. to attain financial independence (75 per cent);
2. to acquire business and financial skills (58 per cent); and
3. to gain confidence in their ability to start a business (42 per cent).

In addition to these reasons, the participants also mentioned obtaining the experience of starting a business, learning time management skills, learning marketing skills, acquiring networking skills, learning to do research for the business, becoming role models for their children and gaining a feeling of success and accomplishment. Some participants were drawn to the programme because it was offered at no cost. Some stressed the fact that the programme was for women, which was important to them. They believed they could not get their needs met in a programme that included men. In the words of Angelica, 'Women support other women. We can understand each other.'

Several of the women interviewed went to the CEP because they thought as Lianne did: 'I'm no good with money. But I know I can learn, with their [CEP] help.' The chance to continue their education, to learn new skills, was also often cited. As Margo said, 'I felt that coming into this programme they could teach me all the little things I needed to know so I could then go to a bank. They have a lot of techniques they will teach you. This way, I could avoid hitting those brick walls.' According to Nadine, 'One of the reasons I took this programme was because of the longevity and the back-up, the support that I would be receiving.'

Some participants felt that going through the programme would increase their confidence and courage when trying to obtain financing. They thought it would increase their skills in negotiating with credit providers. As Elaine said, 'I took this programme for the strength that it would give me when I talk to the bankers.' Others sought out CEP for help in developing their ideas for the business. As Leila puts it, 'It was in your head ... the dream was in your head. For me, it was working with

pets... but what am I supposed to do? There is no money. What can I do? I wish I could own a business but how do I go about doing this?'

The variety of issues with which these women struggled included low self-confidence, finances, having to juggle family and business and the strong support required to start up.

Programme Goal 2

Spur the growth of locally controlled businesses and create new jobs within Boston inner city neighbourhoods.

In the first year, thirty-four participants (41 per cent) completed the programme. Some participants (10 per cent) could not complete the programme due to the demands of their new businesses or new jobs. Nineteen participants created their own businesses and jobs. Twenty participants increased business assets, while seven found employment with CWE staff assistance. In the second year, four of the twenty-one participants who joined the group initiated their own business.

Exit interviews were conducted with participants who left the programme before its completion. Most of them (83 per cent) of the participants gave health and emotional well-being as the reason for non-continuance. Twenty-five per cent left because of scheduling which did not match with the demands of their jobs. Half of them indicated their desire to return to the course at a later date. Some participants wanted to know about other programmes within the CWE more suited to their needs. Seventeen per cent, who left before completion, felt that the course needed to be of a short duration to match the requirement of the clients already in business. Another 17 per cent felt that certain areas of the course needed more time. These included business plan preparation and knowledge on financial matters of running businesses.

Mentoring and networking in the local community are outcomes of the CEP that may ultimately influence the goal of spurring the growth of locally controlled businesses. The CEP matches participants with female mentors from the local entrepreneur and/or business community. Participants learn from these local entrepreneurs, benefiting from their years of experience, as well as from their successes and failures. Mentors serve as important role models, since they also hail from similar backgrounds. The success of these businesswomen and entrepreneurs allows participants to see the potential for their own success. In this way, the mentoring and networking strategy of the CEP may spur the growth of locally controlled businesses and create new jobs.

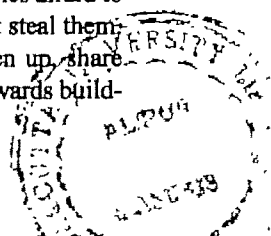
Participants and mentors share some degree of symbiotic business relation. Both purchase services and products from each other. This has its effect in spurring the growth of each other's businesses. Apart from this, they advise each other, barter and refer services to one another. Aileen's comment brings forth this argument: 'It was a pretty good match up too. We have a lot of stuff in common. It's two people coming together with their businesses.' Another participant, Anne, found her mentor very helpful. She remarked:

She [my mentor] told me about a lot of the rough spots and things that I was worrying about. She said, 'Don't worry about those things now. This is what you need to do.' We have a game plan [business plan] all set up now. We're going to work on simplifying my financial situation.

The mentoring programme has proved useful to participants and their mentors. The mentors have observed that many of the participants were close to developing their own businesses. However, participants require guidance around basic life skill issues, such as managing personal finances, managing family obligations and eliminating debt. This aspect, however, was missed while conceptualising the CEP. The mentoring strategy was successful as the goals of mentoring relationships were defined early and the scheduled meetings were planned at regular intervals.

The programme also provided peer support. The programme strategy to facilitate such support was carried out through groups called Business Action Groups (BAGS). These groups comprised approximately four to six women. The goals of the groups included learning from each other, networking with one another, staying in touch, reaching out and getting the help and support they required as individuals or as groups. Such support involved regular telephoning. This was done to make sure that everyone understood the assignments given and completed the same. One participant, Nancy, spoke of the support she received from BAGS. In her words, 'We have formed a wonderful support group here. Not just with the teacher and our counsellor, but amongst ourselves too. You don't feel alone. You know you have a lot of people to call on.'

Such supportive relationships have helped in building trust within the group. The trust was important, as participants were sometimes afraid to reveal their own business ideas for fear that someone might steal them. Trust in participants and mentors has allowed them to open up, share ideas, apprehensions and concerns. This has added value towards building their businesses.



Programme Goal 3

Help women build strong business and life management skills to enable them to become leaders in their work and personal lives and become strong role models for their children and their communities.

Building the women's self-esteem, personal responsibility, life management and leadership skills are some issues that found emphasis in the CEP. The design of the curriculum provided opportunities to women to learn these aspects in the first four months of the programme. Building life management skills started with the screening and enrolment in phase one of the programme. On being accepted into the programme, participants were asked to sign a contract agreeing to attend classes, arrive on time, complete all course assignments, and respect the confidentiality of other participants.

The second phase provided child care facilities to the participating women. This was done with the objective of ensuring that women with children could participate. Programme directors and staff developed curricula for use with the children during child care. This was made available to the mothers who attended the programme. The CWE developed a curriculum that was stimulating to children, particularly for those from age 4 months to 13 years. The children participated in a computer clubhouse, group activities, and games. Participants have indicated that their children looked forward to coming in the evenings with their mothers. Participants indicated that their children too learned the importance of homework. Their mothers became role models for them. One participant said that the course gave her the opportunity to spend more time with her daughter. Coming to the CWE office with her daughter made this possible.

In the next phase of the programme, participants were guided in exploring their own deeply held values, skills and talents. This included a structured process of envisioning their lives. Participants were asked to prepare a vision for the next ten years. This exercise was holistic in nature. The participants examined different aspects of their own life vision—their family, finances, work, health and their spirituality. This phase also included the identification of business skills and areas where further training was required. The identification of business start-up ideas based on hobbies, skills and interests was stressed. One participant, Theresa brought forth her understanding of this process. In her words: 'I thought it was very interesting in this class that they brought in all the personal work. You learn about yourself first. You're strengthening your own mind first.'

This exercise helped participants gain insights into their own life management skills. It provided them with an understanding of discipline, and brought in them a sense of responsibility towards their own lives. As Elaine put it,

This course has made me realise that I am responsible for the success of my business or the failure of my business. I've also gotten discipline from this course, and I think that is important. When you start something, completing it is important. This class has helped me be consistent. It has helped me to set goals and follow through with those goals.

The programme design also had elements of motivation. The transition from one programme phase to another was celebrated. Participants received certificates of their accomplishments as each phase culminated. As Anita put it,

Phase two was all personal stuff. I think it should stay that way because it was very important. You're getting yourself set, your mind set. You're doing things that are necessary. That was the part I was first most sceptical about and then I found out that if you didn't do it first then you weren't going anywhere.

Phases three to six helped participants develop the necessary business skills for starting their own businesses. In these phases the participants learned basic business terminology, refined their business concept, conducted market research, developed a pricing strategy for their service or product, projected start-up costs, and determined a budget for their first year of business. They then learned to design marketing materials, prepare sales plans, set up bookkeeping systems and deal with the tax system. Stacey remarks, 'Before coming to the CEP, I didn't have a notion about how to start a business. CEP taught me the nuts and bolts and business skills that are necessary.' Another participant, Allison, agrees to this remark and goes on to say, 'I got more than I ever imagined at the CEP. I keep working on my business plan and thinking of ways to address marketing and fundraising. I have a network of classmates I can continue to be in touch with after the programme.'

Studies conducted on entrepreneurship training suggest that the programme on designing entrepreneurship often operates on the premise

that with knowledge, clients can move quickly to self-sufficiency.³⁴ Tara, one programme participant, shared this premise,

CEP gave me inside knowledge of things I didn't know anything about. Going to class was so good for me. No matter how tired or frustrated I got, I came away from class empowered with a sense of 'I CAN do it!' Networking with other women and the speaker testimonials [guest speakers] was great! Very uplifting!

Another aspect of the CEP training was the element of environment. The CEP training particularly provided a safe environment to its participants. The participants could test their business ideas and aptitudes before the risk of taking loans. Angela spoke of the ongoing learning she achieved as she researched her business plan:

If you do research, then you find out more. I got something from the library about water and sewer costs. You think you just pay a water bill but there are all of these hidden fees built into the cost of water. I didn't think of these things before [coming to CEP].

Responses to many of the research questions indicated that the Community Entrepreneurs Programme could provide participants with a variety of skills. These included work-related skills, time management skills, resource management skills, the ability to save money, computer skills, goal setting, problem solving, presentation skills, business concepts and business start-up skills.

Some of the outcomes that one observes include increasing career options, obtaining economic literacy, making better-informed life decisions, greater self-reliance and gaining confidence and self-esteem. Most of these parameters represent the qualitative aspects of doing business. They may not reflect the traditional economic development indicators—rising incomes and growing businesses. However, they do point at the CEP's success in helping women achieve a level of greater control over their lives, i.e., realisation of strategic needs. Such outcomes, if not documented, will not be measured. These outcomes do have a bearing on participants' lives and success, particularly in the long term.

Programme Goal 4

Empower women to use entrepreneurship activities to achieve economic self-sufficiency to improve the economic security of their families.

Nineteen women (35 per cent) initiated businesses to supplement their existing source of income. Thirty-nine participants completed the economic literacy portion of the programme. After phase two of the economic literacy package, there was a marked improvement in clients' attitudes towards their own finances and towards money in general. In addition, the programme has made it possible for as many as 38 per cent of the participants to start saving money—some did it for the first time ever. Many participants have reported paying off outstanding debts which has given them confidence and self-esteem. One participant, Jillian, speaks of the money management skills she acquired from participating in the programme:

This course is helping me deal with things that I was in denial about. Like my credit. It's helping me to straighten it out and get it over with. Being able to consolidate and pay a lump sum every month is new for me. Just to keep a steady pace on it for six months or more, whatever it takes. 'Cause it's about being able to re-establish your credit and being able to get a loan and do what you want.

Participants in the programme have started believing that their dreams really can come true. They mentioned that the programme has ensured them getting jobs, which has helped them save for the business. They mentioned that they have now been paying rent on time—something very new to them. They are now able to ask their families (partners, children, parents, for example) to help them achieve their goals. One study notes a similar trend, that 'economic development and... human development occur together'.³⁵ This interesting trend is evident in the sample studied. About 20 per cent of the participants reported decreased reliance on public assistance. Lianne, an aid receiver who underwent the programme, says, 'I am confident I can be economically independent and my goal is to be by the time my public assistance runs out.'

Asset accumulation has also happened as an outcome of the programme. Some 36 per cent of the participants reported some form of asset accumulation in the business. Monique, a programme participant who owns a flower shop, learned the following:

It's important to keep my money in the bank. Just take out what I need. I learned to open a CD [certificate of deposit] account. Now, I'm going to get my money soon. I have interest on it!

Personal assets also saw some positive growth. Around 38 per cent of the participants reported some form of personal asset accumulation. Another 31 per cent reported some income from self-employment too.

The programme has made many of the participants prepare a monthly spending plan. An increase of 61 per cent has been noted on this count. There has also been a 54 per cent increase in clients' awareness that the way they manage their money will definitely have some effect on their future. As Lee explains,

It's all reality and how you are going to do it and how you're going to spread it out and what you're going to take care of. When we open our business, you have to know what bill is going to be paid first, who's going to be paid first. How you are going to save money. Doing your home stuff. This is all going to reflect on your business.

Alicia explains another dimension of her gain in terms of economic literacy. She says:

You just have to do everything consistently for it to become a habit. Like, for instance, when we started out in our personal finances, one of the exercises we did was we were given a calendar in the workbook. For one month we had to collect everything you spend money on, even if it's five cents. I have been consistently doing that ever since I started so I have a stack of receipts this high. I can transfer that consistency into my business.

The training and education provided by the CEP have allowed participants to initiate a process which has seen both economic self-sufficiency and empowerment. Women have also been at the forefront of applying these skills to improve the economic security of their families.

Suggestions for Programme Improvement

As part of the strategy to make the CEP an effective entrepreneurship programme, the curriculum was redesigned. The CEP hired eight participants from each class to provide feedback on changes required in the curriculum. In most cases, the changes and suggestions were implemented in the programme design. Each of the participants hired had successfully completed her business plans and had a strong sense of ownership of the programme. In addition, fifty-five participants in this research study also provided feedback on how to improve the programme. The present section summarises the feedback provided by the participants.

Support Needed

The majority of respondents indicated a need for continued coaching, mentoring, networking, and workshops. As previously discussed, the CEP had designed a mentoring programme for participants. However,

the CEP participants were not as far along as the mentors anticipated. There were still many life skills that participants had to acquire. This meant participants turned to mentors for guidance in this arena. Therefore, participants need help to acquire necessary life skills before they start the mentoring part of the programme.

Respondents also mentioned the need for special workshops and sessions with invited successful entrepreneurs. One such session, 'Breakfast of Champions', which they attended during the CWE programme was memorable for most participants. They remarked that such sessions were quite uplifting. In addition, many mentioned the need for more input on marketing and financial planning. The various responses are summarised as follows:

1. Advertising for employees and partners in the CWE newsletter or on a job-board at the CWE.
2. A CWE Website for advertising participant services.
3. Computer and Internet access for participants at the CWE.
4. A technical focus including hands-on Internet assistance and Web marketing.
5. More evening workshops, since women found it difficult to get to classes during the day and on weekends.
6. Expansion of the CWE courses and workshops regionally to fulfil a need outside the city.
7. Follow-up with students after the programme to provide a much needed push and incentive to continue.
8. The possibility of prior students repeating courses or particular classes to brush up on their skills.
9. Workshops on promotion and marketing on a small budget.
10. Workshops on balancing family, business and financial obligations while still starting the business.
11. Workshops on advertising on the Internet.
12. Guidance on preparing a viable project and its feasibility study.
13. Specific legal advice for starting a business.
14. The need for working in smaller groups. Many participants felt this would allow for more one-to-one discussions on topics of common interest.

More Time for Discussion

The CEP participants suggested that at times there was a great need to talk and share either information or experience. The amount of time provided under the programme, according to some, was not sufficient to

meet this need. Some participants suggested that many of the experience sharing sessions did not interest them. They suggested having interest-specific groups for sharing information, experiences and ideas. The time factor would require a fresh look particularly to accommodate participants' desire to meet more often.

Detailed Nature of Business Plans Questioned

Some participants complained that the sessions on developing a business plan had become too detailed and had taken up a sizeable amount of programme time. Sheniqua, one participant, felt that,

Some aspects of it are a little bit too detailed and I think that this is what prolongs the whole process of doing it. This could literally take you a year to put together or more and I can't spend that much time on one document. For me, I think that if there is a way of shortcutting it or maybe structuring it different or whatever, I would like to see that.

Another participant, Lill, adds, 'There are a lot of things we got hung up on. Trial balance sheets and financial statements, what goes where, it was very detailed.' Lianne also stressed that time was the major challenge she faced in completing the business plan: 'It's just a ton of time that I need during the day to make calls, to go out and visit the library, to just sit down for hours, no interruptions, do everything.'

Some participants said that they lost interest in preparing the business plan. Some felt that it was not the appropriate time to spend hours on projecting and estimating future business expenses. These were unnecessary and complicated matters. Many of them said that it was more reasonable to start the business and then, based on life experience, create a business plan. Erica narrates her view,

I have lost interest in it and I'm not looking to borrow money either. When I go to borrow money, I want to be able to say ... okay, this is my track record. This is what I have been able to do this year. That would motivate me to redo my business plan. When I'm ready to go and borrow money then I will have things to throw in there and say this is what I did this year and break everything down a little more concrete.

Anna too agrees with Erica. In her view, 'I'm going to go out there and just do my business and figure it out as I go along. When I go back to the business plan, then I'll have something concrete because I've experienced it and I've talked to parents and that kind of thing.'

Participants also found that gathering information about their proposed business proved on the one hand a difficult proposition, and on the other a time-consuming affair. As Elise put it,

I've been on-line trying to get price lists for different machines like washers and dryers. They don't want to send you anything, they don't want to tell you anything, they just want you to order or to come to their seminars I'm just running into different walls but I'm trying to get the writing part of it [the business plan] done.

Selena too feels the same. She goes on to say, 'We spent a lot of time on the Internet when we did something like demographics and stuff. It took all of this [holds arms out wide] to get this much information [holds thumb and forefinger inches apart]. It's frustrating.'

Participants wanted inputs on streamlining the process of gathering information particularly with reference to the proposed business area.

Curriculum Change

It was a unanimous agreement by both participants and programme directors that preparing feasibility studies was quite ineffective. Since this aspect of the curriculum was developed in the Midwestern United States, it did not reflect the needs of inner city, East Coast participants. In the words of Annika who pointed out the changes that may be necessary,

I'm still finding some of the curriculum confusing like they tell you to do one thing one way and then they ask you to do it a different way the next time. It's not helpful to me.... They told me... this is what the definition of it is. But then when we applied it we didn't stick to the definition.

Participants felt that the curricula materials should be tailor-made to suit the needs of participants. It is always necessary that participants relate to what they learn from the materials. Participants also mentioned that sometimes one needs to also see who is the target of the curriculum. Developing materials that are appropriate for the educational level of participants is another area of paramount concern.

Greater Tolerance for Diversity

The CEP was established with the idea of catering to economically disadvantaged populations. The ethnic background of participants was not

taken into consideration while the programme was conceptualised. Yet the programme catered to participants belonging to a variety of ethnic backgrounds. This, many felt, taught them to appreciate diversity. They are now able to appreciate other people's perspectives. This was an unexpected outcome of the programme. The CEP directors are currently trying to build on this aspect. They are now recruiting and planning the programme with greater ethnic diversity in mind.

Engage Families in Budget Discussions

During the second phase of the programme, managers realised the importance of engaging the families of participants in discussions on personal budgeting. Many participants found that their flexible nature in spending primarily on buying items for their children could be avoided. Coaching participants on methods of engaging children and spouses particularly on the budgeting process can lead to developing saving habits. In addition to this, participants can also save money for investing in the business.

Programme Duration

All of the phases took longer than was originally anticipated. This was because the group included participants having different levels of exposure to education (Table 2). Those who had never been to college found it particularly difficult to cope with the market research portion of the feasibility study. Many participants had no idea how to use a library and many of them had never used the Internet. To develop these skills in participants the sessions were extended, thereby lengthening the duration of the programme beyond the planned timeframe.

Access to Computers

Access to computers and computer training is an essential aspect of training, particularly for completing the feasibility study. Over 50 per cent of the participants in the CEP had no computer at home. Without exposure to computer use and in the absence of computers at home, it was difficult for many to complete the feasibility study. To respond to this concern, the CEP has designed its programme whereby participants are now provided computers at a discounted price. The CEP has also initiated the process of identifying the training requirements of the participants and the resources that are available for participants in their own neighbourhood.

Conclusions and Implications

The evaluation study on the outcomes of the Community Entrepreneurs Programme has brought out interesting findings. The results will serve as a guide to the Community Entrepreneurs Programme. The results are of interest to policy makers, funders, practitioners and to all those who are involved with micro enterprise development, both in the United States and in other countries. This study makes its due contribution to the growing body of evidence that, with effective support from micro enterprise programmes, self-employment can offer enterprising individuals the opportunity to increase their income and get empowered too. The results of this study can be effectively used to compare the Community Entrepreneurs Programme's particular strategy towards supporting micro enterprises to other strategies serving other diverse needs of this sector. The study also makes significant contribution towards the existing understanding of entrepreneurship development. By empirically examining the outcomes, the study has addressed some very important questions in the field of micro enterprise training.

The study used participatory evaluation whereby the participants provided inputs to programme development. Participants could bring areas of concern to the forefront, thereby contributing to the future development of the programme and other programmes like it. Participants have seen the programme as one that has brought about positive changes. Not only have they learned to create their own businesses, they have gained knowledge about running a business and they have improved their critical thinking skills. They can now assess their own ideas too. The training has helped them improve their life management skills. It has given them a greater sense of self-worth, and increased economic literacy.

The CEP strategies—the combination of training by entrepreneurs, testimonials, networking with classmates and mentoring by staff and trainers—were identified by participants as a powerful combination of tools which has helped them realise the goal of starting their own businesses. The training currently provided has indeed accomplished what it had set out to accomplish—to help participants launch their own businesses, to empower them to achieve self-sufficiency through entrepreneurship and to advance the economic health of Boston's inner city neighbourhoods through micro enterprise and job creation.

The Community Entrepreneurs Programme is still unfolding. Longitudinal studies would be necessary to document long-term

programme outcomes. This exploratory study also had too small a sample to draw conclusions that can be applied to all micro entrepreneurship training programmes. Therefore, the results may have some potential biases. These limitations point to the need for further research on larger populations. This could serve to strengthen and expand upon, or even contradict, the present findings. Our ability to describe effective programme outcomes has enormous potential for aiding in the education and development of future micro enterprise development programmes. The CEP has, thus far, evidenced viable programme outcomes. This can serve as an example to other micro enterprise training programmes that strive to help the unemployed and underemployed achieve economic self-sufficiency through entrepreneurship.

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Promoting African Pioneers in Business: What Makes a Context Conducive to Small-Scale Entrepreneurship?

STEIN KRISTIANSEN

This article aims at improving our understanding of the preconditions for success for the millions of unemployed workers in Africa struggling to build their own businesses. Based on some 'classical' entrepreneurship theory, a simple three-step process model of business development makes the starting point for discussing empirical findings from two case studies in Arusha, Tanzania. The case study methodology takes the advantage of the actor approach, viewing the business context from the point of view of an individual entrepreneur. The potential role of mentors is underlined for 'strengthening entrepreneurial attitudes'. A platform of knowledge and access to information is crucial for 'picking business opportunities'. The role of government is limited only to providing support in 'navigating towards success'. It is underlined that policies should aim at promoting true innovators, not only copyists.

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Introduction

Liberalisation policies and retrenchment programmes have swept over Africa for more than a decade. Parastatals have been dissolved, trades have been opened to competition, and millions of people have been sacked from government employment. New opportunities are created for business entrepreneurs at home and abroad. Local people, without external economic relations or social safety nets, have been forced into entrepreneurial business simply for livelihood security.

Alternative employment opportunities have faded away, and bonds with the agricultural subsistence system have been dismantled. The newly unemployed people are untypical entrepreneurs in the Schumpeterian sense, that they are often copying rather than being truly innovative

in their businesses. They are less risk-taking and able to save from consumption for investment and are more conservative, adhering to cultural and social traditions. Yet there are a number of emerging businesswomen and men, with creative ideas, ready to gain experience, willing to work hard, and they are in need of a conducive environment, a promoting government system and supporting institutions at the local as well as at the central levels. These aspiring small-scale African entrepreneurs can become a basis for an economic as well as a social and cultural recovery. They might become the backbone of local as well as national economies by bridging the former gap between the modern sector owned by the government or foreigners, and the stagnant and lagging informal sector. Local entrepreneurs can bring more traditional values into modern business circles, most of which are presently dominated by pure consumerism and Western economic rationality.

There is a lively debate going on, both in academic and political circles, concerning what elements constitute an enabling environment for small-scale African business entrepreneurs. The World Bank has initiated a number of research programmes to assess various growth constraints faced by African enterprises. Two of these include case studies from Tanzania. The first was undertaken in 1989–91 and included forty-eight micro- and small-scale enterprises.¹ The other study was conducted in 1993–95 involving approximately 200 manufacturing firms, as a part of the Regional Programme for Enterprise Development.² The latter is based on interviews with the Tanzanian respondents, which identifies five major obstacles to expansion. These include lack of credit, lack of business support services, lack of physical infrastructure, uneven competition from imports and utility prices. In addition, corruption was mentioned as a major problem and a barrier to expansion, coupled with government regulatory constraints and law enforcement and compliance. These studies focused on contextual obstacles to enterprise growth and development, the last of the three stages of the entrepreneurial process described later in this article.

This article attempts to identify some general challenges and problems small-scale individual entrepreneurs face during all the three phases of business development. The research is based on the Schumpeterian understanding of the role of individuals and innovations in economic development. The article defines an entrepreneur as an individual or a group of people, initiating the provision of products or services to a market, representing something new in that given context. The entrepreneurial quality to be an innovator is accepted and distinction is made

between innovative and copying business starters. The article understands an innovation as a means of increasing production or improving technology, thereby fuelling further economic development. Copying has been understood as a means of sharing an established market or a known technology by more producers, leading to increased employment in the best case and shared poverty or involution in the worst case.³ It is worthwhile to note that the innovative element is more context specific. Proper entrepreneurship in rural Africa does not have to be based on advanced scientific or managerial research. Marris puts this point clearly:

In the African countryside, an innovation may not seem, at the outset, remarkable—a wholesale business, a restaurant at the cross-road, a bus service, a saw mill. But to achieve these, the owner must have seen what others had missed—an unsatisfied demand, a way of raising money, a source of skilled labor, and put them together.⁴

Contextual variables of special importance for the initiation and development of innovative small-scale businesses are at the core of the article. The following section is an overview of some classical entrepreneurship theory, forming the basis for analysing the contextual variables. The next section starts with a methodological discussion and then presents some empirical findings in the form of two micro-business case studies from Arusha, Tanzania. These cases illustrate the present-day African reality: energetic people struggling to survive and hoping for improved living standards. The importance of taking an actor approach is underlined in this study. The study tries to read the reality through the eyes of the individual entrepreneur, particularly the environment, and how it is conducive to innovative business. These are then mapped and discussed. Next, an analysis of environmental elements that are important for entrepreneurial endeavour is presented. This section is structured on the basis of the general theoretical discussion in section two, 'The Process of Small-Scale Business Entrepreneurship'. Findings from the case studies are discussed together with results from other empirical research, mostly from Africa and Asia. The concluding part attempts at highlighting a few essential issues for further debate, particularly in understanding mechanisms for stimulating indigenous business innovators in developing economies.

The Process of Small-Scale Business Entrepreneurship

Small-scale business entrepreneurship is described as a creative process, which has three distinct stages. The first stage deals with the strengthening

of attitudes and commitment to hard work, originality and risk-taking. The next stage deals with the period of picking opportunities, striving to set together the means of production and identifying and opening the markets. The last stage deals with the process of navigating through obstacles. The main objective of this section is to build the theoretical base for the empirical case studies. The process of small-scale business enterprise development is explained through a simple model illustrated as follows:

*Strengthening of attitudes → Picking opportunities → Navigating
through obstacles*

This three-step process shows some degree of similarities with Bhavé's process model.⁵ Bhavé in his process model too has categorised venture creation into three broad stages: the opportunity stage, the technology set-up and organisation creation stage and the exchange stage. Let us understand these three stages in detail.

Strengthening of Attitudes

A necessary basis and starting point for entrepreneurial endeavour is a set of attitudes and mental strength. Two 'classical' theoretical contributions to understanding the entrepreneurial spirit were made by McClelland and Hagen. The need for achievement has been considered the core of the entrepreneurial spirit.⁶ In McClelland's view the need for achievement has been considered as a psychological quality, differing among individuals and cultures, and creating different preconditions for entrepreneurship among individuals, companies and countries. The individual need for achievement or, more precisely, for challenge and success should, again according to McClelland, be a valid contribution to explaining rates of national economic growth in comparative country studies. The basic causal relationship that McClelland set forth as a hypothesis and tried to test empirically is:

n-achievement → entrepreneurship → economic growth

McClelland is clear in his own conclusions: 'The study shows that n-achievement fits people for entrepreneurial jobs', and 'achievement-oriented ideology is absolutely essential to economic development'.⁷ He is also clear in his advice on political actions to promote entrepreneurship and economic growth through raising an achievement-oriented ideology:

First of all, ... parents must be encouraged to set high standards for their children. Secondly, ... increasing the rights of women, both

legally and socially, so that they can begin to weaken the effect of paternal authoritarianism.⁸

These are policy advices that should bring results in the next generation. McClelland, however, expresses optimism as regards the possibilities of raising the level of n-achievement in a country immediately:

Business and government in underdeveloped countries can immediately promote economic development by fostering achievement-oriented ways of thinking.... Training courses ... can provide an individual with the means that will allow him to change his own motivation if he wants to do so.⁹

This clearly formulated and optimistic strategy may explain why McClelland's thesis on n-achievement has been so popular, in spite of severe criticism of his assumptions and empirical testing.¹⁰

Some studies of the role of aliens in the economies of specific countries may throw additional light on the attitudes and spirit needed for innovative business starters. Mackie relates his studies on Jews in Europe, Levantines in Latin America, Indians in East Africa and Chinese in Southeast Asia when stating that they are 'strongly motivated to succeed in business because they have so often been excluded from many more desirable occupations in the countries they migrated to'.¹¹ Kilby in his study especially points at cultural unity and group solidarity when explaining the dynamic role of aliens in business in Latin America, Africa and Asia.¹² Glade in his study on the Levantines in Latin America finds that the family and kinship networks and the culture of loyalty and support among foreigners are of crucial importance to their entrepreneurial success.¹³ These networks strengthen internal pride and self-esteem.¹⁴ Wu, in his study of entrepreneurs in Southeast Asia, finds that the social mobility of the Chinese aliens is of importance to their business creativity. The social acceptance of breaking out of a status position makes possible a search for profit in a wider range of new and changing areas of business, compared with more socially bound natives.¹⁵ Mackie follows up on Wu's statement, saying that Chinese immigrants and their descendants are not only hardworking and thrifty, but are also 'a hardy, self-reliant and, above all, a risk-taking lot'.¹⁶ It is found that in Southeast Asia, the indigenous people are not strongly motivated to engage themselves in commercial pursuits. This can be explained as a consequence of social stratification, limited mobility and also by a general satisfaction among the indigenous people of Southeast Asia. The indigenous people aspired

for prestige in non-commercial fields within the limits of their initial social status.

Schumpeter and Kilby both consider that the potential entrepreneurs are individuals, motivated by an atavistic will to power, who occur randomly in any ethnically homogenous population.¹⁷ However, researches on cultural and social settings, on individual psychological qualities and studies on alien entrepreneurs reveal that cultural context may also influence entrepreneurial attitudes and activities. Schumpeter also pointed at the problem of communication and trust between the 'energetic' entrepreneur and the 'static-hedonistic mass of people' forming the innovator's cultural environment. The creative-destructive role of the entrepreneur according to Schumpeter often provokes hostile attitudes from traditional power-holders, which may have a negative impact of hindering access to capital. Santarelli and Pesciarelli argue that credit availability is especially crucial to entrepreneurs in settings where social and cultural barriers to change are high, and where 'the energetic type' does not hold 'command powers' over the factors of production in that society. Credits, if they are obtained, make the active business role of the entrepreneur accessible to the right 'energetic' persons, irrespective of their social rank or membership in a certain class. There is also an interesting point in their argument, that access to bank credits potentially gives a social legitimisation of the entrepreneur and his or her activities of 'creative destruction' within that society.¹⁸

Even though many authors have pointed at weaknesses of psychological theories on entrepreneurship focusing on individual attitudes and upbringing, it seems obvious that the potential entrepreneurs are influenced by cultural qualities in their environments.¹⁹ The two case studies reveal the importance of a general acceptance of private business endeavour in the society, and of the role of individual mentors.

Picking Opportunities

Based on individual strengths and motivational state of attitudes and some social acceptance in the environment, the potential entrepreneur strives to establish an innovative combination of knowledge and information, capital and technology, labour and skills, and markets and demand for change. Leibenstein builds on theoretical contributions towards explaining both the supply side and the demand side of entrepreneurial services, and on his own concept of 'x-inefficiency' when formulating a theory of the entrepreneur as a gap-filler.²⁰ The starting

point in Leibenstein's theory is the existence of conceivably obtainable knowledge and techniques (inventions) that could be set into production. The 'gap-filling opportunity set' is reduced to those possibilities that might be associated with expected yields of positive net profits. The demand side is determined by the size and structure of this opportunity set. The supply side, on the other hand, is constituted by two aspects, namely, the motivational factors (determined by personality qualities many of which derive ideas from McClelland and Hagen), and market structure and competition in the actual area of space and business. Leibenstein calls the supply side factors 'the interfirm motivational state'.²¹ The level of entrepreneurial activity, then, should be dependent on the combination of the 'opportunity set' and the 'interfirm motivational state'. Additional determinants of striving for business start-up, according to Leibenstein, will be the potential access to necessary inputs of capital and skilled labour ('the input gap'), and access to relevant information on technology and markets.²²

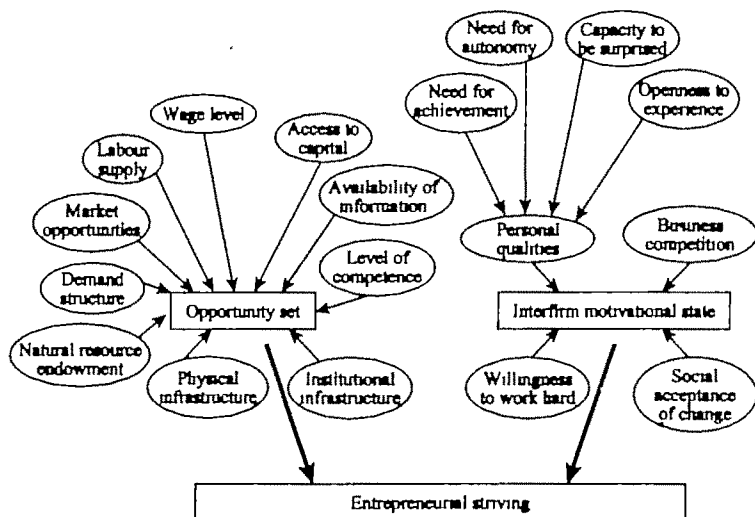
Glade suggests that the 'opportunity set', or 'opportunity structure' consists of the following elements: demand structure and market opportunities, market structure and competition, access to capital and credits, availability of information, skills and technology, local natural resource endowment, physical and institutional infrastructure, human resources, supply of labour and wage level.²³ Glade also makes a distinction between the perception and the objective existence of opportunities and resources. This points again towards the value of taking an actor approach in entrepreneurial studies. Another researcher, Kirzner, underlines the importance of the entrepreneurs' own perception of their business environment. He uses the term 'opportunity recognition', and claims that the most important part of business innovation is the entrepreneurs' alertness to opportunities in their environments.²⁴ This article, however, contends strongly that individual knowledge and access to information are more important for African entrepreneurship than most other factors of the opportunity set.

The discussion of determinants of entrepreneurial striving has been summed up in Figure 1. 'Interfirm motivational state' contains most of the 'strengthening of attitudes' factors presented above, while the 'opportunity set' corresponds to 'picking opportunities'.

Navigating through Obstacles

After identifying and combining the possibilities within the opportunity structure comes the period when the innovator has to manoeuvre the

FIGURE 1
Opportunities and Motivation for Entrepreneurial Striving



new enterprise by clear objectives and sound management through obstacles of bureaucracy and challenges of competition. Drucker in his book *Innovation and Entrepreneurship* focuses on dynamics and how the entrepreneur can facilitate a continuous process of adjustment and exploitation of new opportunities in the society: 'The entrepreneur always searches for change, responds to it, and exploits it as an opportunity.'²⁵ Traditional managerial outlooks, whatever they are in different contexts, have to be reoriented towards a management style of approaching ever-new challenges, which is proactive and opportunity exploiting. New competitors, improved technology, changing demands, movements in the labour market, all have to be met with a persistent entrepreneurial spirit to move the enterprise in the direction towards success. Reports, however, have a different story to tell. Individual entrepreneurs are often seen bogged down with daily work in production, marketing, administration and in meeting bureaucratic hindrances. This often exhausts their spirit, time and energy for survival and further growth.²⁶

Several studies on entrepreneurship in developing countries put emphasis on the bureaucratic hindrances that come in the way of establishment and growth of small businesses. In many countries, business environments are often marked by excessive government control and

regulations. Government control in developing countries takes various forms: licensing, permits for imports and export, foreign exchange regulations, etc. Based on the studies of determinants of entrepreneurial success in India, Sabbarwal notes that 'the plethora of state-imposed conditions an entrepreneur must fulfil even before launching his enterprise, may dampen many a brave spirit'.²⁷ Sabbarwal observes that it takes a great deal of effort and expenditure to have papers moved through the government channels. The civil servants, instead of acting as partners in entrepreneurial development, often display an attitude of indifference and apathy. Regulatory requirements of the government give the bureaucrat a solid base of power. Similarly, lack of co-ordination between different ministries, departments, and numerous administrative layers of governance prove obstacles to running a small-scale business.²⁸ Goran Hyden in his study in Tanzania points at the lack of trust between business people and the government. The author points at the underlying need to develop national judicial systems to facilitate efficient and non-corrupt business.²⁹

In the present African business context where liberalisation policies have been working for a while, it is our proposition that lack of navigational aid, especially in the form of giving access to information, is a more significant growth constraint to small-scale entrepreneurs than the bureaucratic maze.

Business Innovators in Arusha, Tanzania: Two Case Studies

Methodology

This section explains the case study methodology used in this research. This is done in order to obtain the advantages of the actor's perspective on both the contexts and dynamics. The researcher in this research has tried to enter the 'life-worlds of those researched', thereby observing and comprehending the entrepreneurial process through the lens of the micro-entrepreneurs.³⁰ The research process was intended to bring out the actor's impressions on the stimulating and hindering contexts all along the road to business successes. This actor-oriented methodology, in the words of Norman Long, 'entails recognizing the "multiple realities" and diverse social practices of various actors.'³¹ The qualitative interview supported by both direct and participant observation is at the centre of the case study methodology used in understanding the process.³² Individual entrepreneurs are at the core of the cases. The researcher has

tried using lengthy talks and participant observation with the entrepreneur, relatives, employees, customers, friends and representatives from government and non-government institutions in order to get insights into various issues.

Yin, an eminent exponent, has argued that the case study methodology is useful when the boundaries between the phenomenon studied and the context 'are not clearly evident'.³³ Yin argues that case studies allow for empirical inquiry into unclear 'boundaries between the phenomenon studied and the context'.³⁴ The goal of the methodology is to expand theory, not to prove it. It should be mentioned that case study research exists only in relation to a theory, and that the basic theory of the researcher structures and validates not only the data analysis, but also the subject selection and data collection.³⁵ The basic theory of this article has been presented earlier, and the research approach is grounded on the theory as well as on the additional case studies conducted.

The two cases presented here have been selected from among ten studies conducted during 1998–99 in the Arusha and Arumeru districts of Arusha region, northern Tanzania. The ten enterprises are newly established small-scale enterprises that received support from NGOs and government institutions working on the promotion of micro-enterprises. The criterion adopted for selection was their high degree of innovativeness. The two cases used are drawn to exemplify the general perception of the business environment among the entrepreneurs from Arusha. The interviews conducted used similar interview guides. Other information was gathered depending on the requirements specific to the cases. Case study protocols following Yin's guidelines were used throughout the research.³⁶

Pleasure and Business in Fish

Ladislau as an entrepreneur built his first aquarium at the age of 16. This making of an aquarium was then for his own pleasure. It was his interest in observing living fish that drove him towards this technical creativity. Business, for him, came much later.

Ladislau was born in Shinyanga in 1972. He is the third child among five other siblings. His family hailed from Mwanza where his father once worked as a manager in an agricultural co-operative unit. The family moved out of Mwanza and again returned to their *shamba* in Mwanza for some time, before Ladislau's father finally moved to Arusha to work in Tanzania Breweries. This happened around 1979, and

Ladislaus got his full primary and two years of secondary education at Arusha. Ladislaus was intellectually strong, but his father wanted him to obtain higher education in a technical field. He had noticed that Ladislaus had interests and skills in mechanics. The family also faced some financial problem. Providing education to six children through long years of schooling had proved expensive for the family. After Ladislaus completed his two years in secondary school, he went for a three-year course in vocational training at a centre located between Arusha and Moshi. This centre was government managed and hence had a low fee structure. It was known in the area for the quality of education it imparted. The first two years at this vocational institute offered training in general mechanical engineering. The last year provided specialisation in machinery and tool repair. The schooling, the vocational training and the neighbourhood provided Ladislaus exposure to the world. He was fluent in English. All this helped him to demonstrate self-confidence in meeting his customers and government officials.

After completing his vocational training, Ladislaus was engaged with various mechanical workshops for about four years. This provided him with pre-entrepreneurial working experience. In Tanga he worked at a government sisal company. He worked there as a mechanic, repairing tractors, machinery and equipment used in harvesting and processing of sisal. After working at Tanga for a few years he was transferred to another branch of the same company at Moshi. There he worked as an assistant instructor in the workshop. He was finally transferred to Carmatec, a parastatal organisation under the Ministry of Industry and Trade, set up for the development and design of new technology for practical application in rural settings. This organisation designed biogas plants, water storage systems, equipment for pressing oil from sunflower seed, etc. The exposure at Carmatec was not long. Ladislaus resigned from his job in 1994 when this company started facing financial problems. The long years working with the government did not have an adverse effect on him. His creative nature and desire to try out something on his own made him launch his business.

Ladislaus, as we know, had developed from his childhood days a keen interest in fish and aquariums. He would catch fish from rivers and lakes and keep them in bowls. He had mastered the technique of catching fish, and keeping them in aquariums. He experimented with water rotation, temperature and feeding to keep the fish alive. It was only during a visit to a friend's home at Moshi some ten years before that he had seen an

imported aquarium. Soon after this visit he purchased some sheets of glass and set them together to make his own aquarium. At that time he had no sophisticated pumping or filtering system in his self made aquarium.

After he quit his job, Ladislaus got an opportunity to be in Nairobi—the business capital of East Africa. He chanced to meet a pet-shop owner from whom he obtained information on various kinds of equipment, design and ideas on aquariums. He was also exposed to various pumping and filtering systems and species of fish. With quality craft, artistic design, permanently clean and fresh water, jazzy fish, healthy nutrients, the whole package of decoration and peaceful entertainment was realised by him as a new area where he wanted to establish himself. All this ultimately provided him with inputs towards a new entrepreneurial leap. He once remarked, 'Nairobi changed my life.'

The market was still to be explored by him. The first order came from a well-off friend of his father. He had seen Ladislaus's built aquarium and ordered for one. It was after that, that several requests came from within the family's circle of acquaintances. The New Arusa Hotel ordered for a fully equipped aquarium, built in frames of carved wood. This was displayed in the snackbar of the hotel. His design and wooden handicraft attracted attention and interest among many prospective buyers.

Ladislaus sold fifteen aquariums in three years. These aquariums ranged from 50,000 to 90,000 Tanzanian shillings (Tsh). Selling one at 70,000, he was left with a margin of 25,000 only. This production of five per year fetched him what he should have earned in a month. The sales of aquariums would not pick up. His marketing was unorganised and hence could not provide him with constant orders. He saw the need for a more professional approach to promotion but lacked both skill and resources.

Ladislaus understood his limitation and sought assistance from various sources for developing his business. The assistance he required included access to information, inputs in developing a marketing strategy and a loan for expanding his business. His information needs included the sources which he could tap to obtain the necessary raw materials for his aquarium production unit—the decorative elements and the small gadgets that he could use for various operations. He wanted inputs whereby he could develop a viable marketing strategy in order to boost his business, and finally he wanted a loan of 400,000 Tsh for establishing a workshop. He had approached various agencies involved in the promotion of small businesses in Tanzania. These included agencies like

PRIDE, FAIDA, SEDA, SIDO and YUEG that represented both the government and the NGOs. To his misfortune, none of them could offer him the assistance he needed.

These start-up problems in establishing his aquarium business made Ladislaus seek an alternative whereby he could gainfully apply his own skills and interests. He entered into a partnership with a Goan Indian, and both engaged in developing a flower business. This unit engaged in manufacturing water gardens having waterfalls, fish and waterlilies. This line of business attracted Indians, Arabs and others—particularly all those who had money in Arusha. A typical water garden would cost 300,000 Tsh. The margin was substantial and there was scope to earn more through regular maintenance contracts. Together with the aquarium production and retail sales of equipment and fish nutrients, the additional line of business provided Ladislaus a reasonably safe and regular income.

What, then, is Ladislaus's perception about the environment? How does he see the context wherein he operated—particularly in terms of acceptance of boldness and creativity, opportunities for business development, openings for linkage, synergy, backing of productive initiatives, etc.? Ladislaus opines that the context that prompted him to undertake an entrepreneurial vocation was the gloomy atmosphere where scopes for alternative employment opportunities were slowly fading away. His former employers were cutting back on their workforce—a typical phenomenon observed all across Tanzania in the early 1990s. For Ladislaus, this downward trend of the economy and the accompanying feeling of disenchantment, brought out the creativity in him. He observes that for some the transition had been a boon. The economic change demonstrated increasing demand for luxury goods. The market for living fish and garden waterfalls grew as quite a large number of alien businessmen had garden-enclosed mansions. Ladislaus experienced the total absence of government system in his entrepreneurial endeavour. He could not obtain government assistance in establishing his business nor could he take advantage of the associated government network. The state for him was neither a hindrance nor a stimulus to his growth. He was allowed to operate his business informally without any statutory requirement of licence or company tax. He is, however, disappointed as the non-government sector remained a silent spectator. Ladislaus feels that he had stayed with the business only because of the encouragement and backing he received from his extended circle of friends and family members.

Head above Water: Saving Energy and Cash

Mr Kweka went into private business after being dismissed from his job. This happened while he was a technical teacher at a Catholic mission school. The mission school, unable to bear the burden of increased expenses, asked him to resign from the job in 1990. He was then in his late fifties.

Mr Kweka has a technical qualification. He had his basic training at Moshi Technical School. He had obtained vast experience working with various industries in Moshi and Arusha. He worked as an engineer and supervisor with Tanganyika Extract Company for sixteen years. This gave him the platform to broaden his technical skills and also helped him in developing an extended network.

Mr Kweka had been with the missionaries for eight years before quitting his job. This technical school produced items for the local market and also catered to the requirements of other missions' projects. Mr Kweka had been exposed to European ideas and ways of working at this mission school. These included solving technical problems, proactive management and general thinking. This was possible, as the mission was headed by an Austrian. At the mission he also had a high degree of freedom. Mr Kweka exploited this to his fullest advantage. He had several opportunities to demonstrate his creativity and all these aspects helped him to initiate his own entrepreneurial career.

During the first year of his unemployed life, Mr Kweka looked around and developed his ideas about business. He was fertile with many ideas. His children were in school and he required resources to take care of them. All this made him strong. He had to do something to make ends meet. He looked around for markets of various mechanical goods and also searched for a place to set up his unit. He started his business in a modest way. He used the backyard of his rented house as his workshop where he started manufacturing simple hand tools, vehicle bars, loading gear for small trucks, simple pushcarts, etc. These mechanical items were made of steel and were welded together. All these products were manufactured to cater to individual orders. This was not, however, what he wanted to do—his speciality was manufacturing energy-saving devices.

The interest in getting into the energy saving business came from his own family's experience. The increasing cost of cooking fuel and the difficulty experienced in procuring charcoal prompted Mr Kweka to develop technology whereby stoves could be torched using organic

waste. This household stove has since become his core product. The product had a good market and also gave him a moderate margin. Costing 15,000 Tsh and three days of labour, each of these stoves sold at 20,000 Tsh. However, this product was not free from associated problems. It was sold only among people who belonged to the lower and middle economic strata. The product attracted people who wanted to save on fuel cost. Yet, the poor could hardly afford it. Those having free access to fuel were again not interested. These stoves had a life span of four to five years and could save enough fuel, thereby saving on cost as well. It was an attractive proposition for a moderate-sized household since the cost of fuel, particularly charcoal, has shown an increase in recent times. An average family requires charcoal, worth 3,500 Tsh a week for cooking purposes. In order to attract larger institutions like schools and hospitals, Mr Kweka recently ventured into manufacturing bigger models of the same product. This has given him higher margins of profit.

Mr Kweka has recently included another innovation in his product line—a roof-top solar water heating system. This product is tailor-made to suit customers' specification and requirements. The entire package costing 300,000 Tsh includes a black painted solar panel pipe grid—the core technology, pipe system, a water tank and an extended pipeline to one or more water taps. Except the panel, the rest of the product is regular tinsmithy and plumber craft. The package is higher on the expense side and hence attracts institutions more than individuals. Mr Kweka's network with the mission has provided him valuable support in marketing this product. He sells on an average ten to twenty solar heating systems every year.

The fourth item in his product line is the solar cooker. This is currently in the phase of refinement. This solar cooker consists of a system of mirrors and black metal concentrates. The system is used in heating as well as boiling food items. The sale of this product is limited at present to a few supportive institutions only.

Mr Kweka's workshop employs six workers. These include two of his own sons. He pays his employees a monthly salary ranging between 25,000 and 40,000 Tsh. Initially these employees work as interns. They do not receive payment during their intern period. Once they learn the work and start manufacturing the items, they begin receiving their salaries. Many of the local youths have shown a keen interest in working under his guidance. A stint at Mr Kweka's workshop has helped many find secure jobs with other workshops in the area.

Mr Kweka has employed quite a number of strategies to sell his products. He has tried the channel of going through shops and wholesale traders in Arusha. Since the profit margin is low he cannot go through other costly intermediaries. Mr Kweka realises that as long as his sales are concentrated in Arusha, he can work as his own agent and use his workshop as an emporium. He has not tried to advertise his product. He relies upon going through his own networks and neighbours for marketing. His remark—'I have to rely on myself; marketing partners only take away my profit'—seems more plausible. He understands, however, that hiring a professional agency to market his products will become necessary once he spreads himself to markets outside Arusha. In this direction, he has recently established contact with a Dutch donor organisation, FAIDA, for seeking assistance in general marketing—particularly in getting strategic inputs for advertising his entire product line.

Mr Kweka knows that increase in sales will generate subsequent demands in many other areas. He would require more space, fresh investment in plant, machinery and raw materials. Until now his business has not imposed any of these demands on him. He has managed without borrowing from the market. He understands that lack of credit has been a setback for his business—both on the technical and marketing fronts. He understands that more advanced machinery would have increased his productivity. However, he is sceptical of borrowing credit at an ongoing rate of 30 per cent. He understands that the cost he would incur towards servicing this credit will put an enormous burden on him which cannot be offset through increased production, at least in the short run.

Mr Kweka is honest in paying income tax to the government. His annual tax amounts to approximately a quarter of his annual income. He also pays other necessary licence fees. Mr Kweka, however, has not received any kind of support, not even encouragement from the government. Conversely, he has not encountered any hindrance either.

Mr Kweka started his business when he lost his job. He had no land of his own which could have taken care of his food requirements. He had skills that he used to eke out a decent living. Equipped with skills, experience, business relations and motivation, he had ventured into the world of business. His focus on energy saving techniques and the context wherein he operated worked to his advantage. He exploited his relations with the donors and the institutional market. All these helped him tide over the challenge. Now the major challenge is expanding his business. He wants to pitch at the national market level. He does possess some

necessary skills to take on this challenge. The rest he needs to learn in order to give shape to his dream.

Conducive Environment for Small-Scale Business Innovators

Both the cases presented in the preceding section drive home some very important lessons. The analysis follows the basic theoretical propositions from the second section, distinguishing between three main steps in the business entrepreneurship process. The presentations help us build on the innovators' own perceptions of their contexts, combined with other empirical findings. This helps us to improve our understanding of contextual elements that are of importance to business success. Let us examine each of them separately.

Allowing for Individual Creativity and Skills Development: Strengthening of Attitudes

Ladislaus and Mr Kweka developed their attitudes and commitment to innovative action and hard work over different time spans. Ladislaus, still young at the age of 28, was experimenting with aquarium fish as his hobby. Business came after he realised that government employment was uncertain. More than the need for achievement, the excitement of experimenting inspired him early, and this got strengthened through his government positions. He had built up on his practical skills and had the necessary openness to experience business. He obtained moral support from his family and friends during the early days of his business. Mr Kweka on the other hand had spent years in mounting his skills and networks. He started his business at a rather late age. His need for setting up a business came with the necessity of creating a new livelihood and securing education for his children. He would probably have been with the missionary school serving there as a technical teacher if the economy of the missionaries had remained unchanged. The main stimulating element in the case of both the entrepreneurs was the lack of alternative employment.

One does realise that the situation as seen in the two cases may not apply to others. For other potential entrepreneurs, a strengthening of attitudes and motivation may be necessary. Some researchers and policy makers are concerned with the possibilities of actively stimulating the entrepreneurial process through education, thereby affecting people's attitudes and perspectives. Several entrepreneurship development

programmes have been set up in developing countries, many of them with support from foreign development agencies. These agencies have based their approaches on McClelland's strategies aiming at developing the need for achievement. Poojary in his study made an assessment of entrepreneurship development programmes (EDPs) in India. This study gauged the possibility of imparting entrepreneurial attitudes to individuals through planned intervention.³⁷ A low business start-up rate was found in the sample of participants and potential entrepreneurs in EDPs conducted in India. The study drove home some broad conclusions. One, EDPs per se have had only a marginal impact on the process of creating entrepreneurs; and two, 'it is doubtful whether the EDPs impart the right kind of skills to those who, according to the criteria of the EDP, are qualified to be entrepreneurs.'³⁸

Other scholars have also expressed similar scepticism on the impact EDPs can have on probable entrepreneurs.³⁹ One study carried out in a Western country has argued that the curriculum for entrepreneurship education needs larger inputs of knowledge and practical skills, instead of being preoccupied with behaviour modification, strengthening of need for achievement and other changes of attitudes.⁴⁰

Dana, based on his study of six island economies in the Caribbean, is of the opinion that 'the most critical element in entrepreneurship development is the value the society attaches to business.'⁴¹ This value according to him reflects the general acceptance of striving for individual progress and prosperity in the social environment. He is of the view that a strategy of minimal government intervention might yield better results than a highly interventionist approach. The starting point for Murphy and others, in their article on allocation of talents, is the assumption that there will be competition to attract the country's most talented people, where entrepreneurship and rent seeking are two of the alternative activities where these people will find their earnings.⁴² Entrepreneurship should ideally reward more than rent seeking to build the motivational state for entrepreneurial endeavour.

Elkan in his study points out that in Tanzania the government, through nationalisation, state ownership and price controls, has deliberately discouraged the emergence of private entrepreneurship. The process has led to discouragement of creativity within government parastatals. Elkan is, however, optimistic as regards the dynamic role of small enterprises in Africa: 'Small businesses are the most promising vehicle of entrepreneurial dynamism in Africa.'⁴³ To release this dynamism, he says, it is necessary to create 'a liberal economic

environment which minimises restrictions rather than specific policy measures and incentives'.⁴⁴

Minimising restrictions does not seem to be enough in both the Tanzanian cases. One does see a definite role for the government, particularly in the area of promotion. Cleverly counselled networks at local levels could strengthen the pride and self-esteem of these small business starters. The role of mentors could also be important if set into strategic operation. Gnyawai and Fogel, with a focus on emerging economies in Eastern Europe, find that 'the presence of experienced entrepreneurs and successful entrepreneurial role models in a community or country conveys a message to the potential entrepreneurs that business is an attractive career option.'⁴⁵ Another scholar concludes on the basis of one hundred case studies in Lesotho that 'the absence of mentors often decreases the rate of creating new businesses and increases the rate of business failures.'⁴⁶ These findings also support the views of other scholars like Hirsch and Bush and Fann.⁴⁷ The main objective of the programme in Lesotho, as indicated in the study by Masten, was to create awareness among potential entrepreneurs, especially on the desirability, possibility, and feasibility of business start-ups.⁴⁸

Access to Information, Skills, Capital and Markets: Picking Opportunities

Mr Kweka is through with the process of establishing his business. His employees carry out the production. He is using some of his own time and energy navigating the obstacles in his business. He has faced most of the typical start-up problems. These include market entrance, adopting new technologies based on present skills and competence, finding qualified and motivated workers and developing professionalism in fields like accounting and marketing. The problem of access to credit continues to remain unresolved. Ladislaus on the other hand is tirelessly struggling to keep his business going. The market for his product is growing, but he requires skills in marketing. His capital regeneration is totally dependent on his savings. Business networks are under construction. He needs to improve access to new information and ideas. Recruiting personnel for production and for other purposes remains out of question for Ladislaus.

In Tanzania, growing markets have generally been found to be the reason for growth in small-scale business during the last decade.⁴⁹ A Swedish study of eighty small enterprises in Tanzania found that

77 per cent of them had experienced some or substantial increase in the demand for their products over the last few years.⁵⁰ Several reports show that market expansion is an impact of the liberalisation process in Africa since the late 1980s.⁵¹ However, the markets for capital goods and consumer durables remain dominated by import and sometimes by non-indigenous national producers. Many of the Tanzanian companies today are run by interests from South Africa. Great potentials exist for growth. This is possible through stimulating local entrepreneurs to aggressively penetrate into both well-established and emerging markets. Arndt, in an article on entrepreneurship and market failure, finds it useful to begin by distinguishing between 'allocative' and 'creative' functions of markets. 'Markets in their allocative function are instruments for economic efficiency and in their creative function are instruments for economic growth.'⁵² The prime mover according to him in any market mechanism is competition. He finds that developing countries often lack the necessary competition and market function that provide the creative stimulus to entrepreneurship. Building on Arrow, he says that if market failure happens, then transaction becomes a costly affair. In dual economies, one finds that the transaction costs between modern and traditional sectors are high.⁵³ With reference to Myint,⁵⁴ he points at the reason for this economic dualism. According to him there is an organisational disconnection between the two sectors. In his words: 'The connecting pipelines are clogged up.'⁵⁵

Arndt, while emphasising the creative function of the market, agrees with the ideas and lines of thinking of Kirzner's theory of entrepreneurship.⁵⁶ Kirzner had interpreted any entrepreneurial activity as a creative act of discovery within the market. Market acts as a stimulus to learning.⁵⁷ In order to obtain this creative learning, small-scale, indigenous entrepreneurs must have on the one hand access to the stimulus of the markets and on the other less of the 'organisational disconnection'. It is necessary that these clogged-up pipelines are opened.

In order to improve the market in its creative function and to stimulate entrepreneurship, Arndt has argued the need for government action and state intervention. There is a need to correct market failure and balance uneven competition between the technologically superior and the lagging sectors of the economy. Government authorities should have the responsibility of opening and maintaining business connections between the two sectors. The government, by inducing private investment and innovation, can stimulate competition and build linkages between different business lines within the lagging sector.

Ali observes that for small-scale individual entrepreneurs networking can be a major strategy for creating gateways to market entry. Networking, according to him, is 'the process of sharing contacts and obtaining resources'.⁵⁸ The individual entrepreneur's success to a large extent is contingent on his or her ability to identify opportunities and to obtain scarce resources through such networks. Network relationships are diffused, long-term, constructed of affective and moral ties, and are also underwritten by trust.⁵⁹ Authors like Ramachandran and Ramnaryan, based on their empirical research in India, found that the 'pioneering-innovative type of entrepreneurs' tend to demonstrate higher networking tendencies by going beyond the circle of the immediate family and friends to the community and industry in a wider context. This willingness to go beyond the extended family for business cooperation has to do with building trust between individuals. Sustainable networking beyond family relations can happen under conditions of established institutional arrangements, codes of conduct backed by legislative/legal provisions and a generalised high standard of morality in the society.⁶⁰

Tanzania is yet to have a developed market. It lacks the institutions created to secure certainty in market relations. One study finds that contracts between business people in Tanzania are mostly unwritten. Legislature too is seen as without much enforcement power. Lack of efficient judicial infrastructure makes entrepreneurs restrict extending support beyond personal trust. Networks are often limited to the immediate family. This is a serious hindrance to most entrepreneurs, particularly in accessing information and in accessing capital and markets.⁶¹

As an input, access to capital and credit for starting small-scale businesses needs an elaborate discussion. One does note the presence of reports and publications having relevance to the present situation in Africa.⁶² It is worth mentioning at this juncture that none of the non-government organisations involved in supporting small-scale businesses in Arusha could supply Ladislaus and Mr Kweka the capital needed for developing their businesses. It can be concluded that one needs to develop more venture capital funds in Tanzania to have a widespread impact upon this unmet need.

Navigational Aids, not Bureaucratic Maze, towards Success

Neither Mr Kweka nor Ladislaus faced severe hindrances from the bureaucratic structures. Mr Kweka, having been through the start-up

phase of his entrepreneurial activity, is quite hopeful about navigating towards success. He operates in the formal sector of the economy and has been bearing the burden of paying licence fees and income tax. He has not faced many restrictions and hindrances, nor has he obtained support or navigational aid from the government. Ladislaus, on the other hand, continues to operate in the informal sector. His business would easily die if he was asked to pay high rates of taxes and licence fees. He is satisfied with the indifference of the government institutions towards his business, leaving him free of the burdens of regulation and tax regimes. He does not have an urgent need for business assistance. He is on the lookout for aid from non-government organisations.

In Tanzania, scholars have documented that laws and regulations have been highly restrictive of small-scale businesses and private entrepreneurs.⁶³ Government institutions and parastatals were given the power and the priority in distribution of credits and all kinds of licences. This practice was rampant till the late 1980s. Private business innovators experience very infrequent instances of fair treatment and patronage from these government agencies. Initiative and potential business success thus get eroded. Marris in his study on barriers to African entrepreneurship concluded that 'there is a great deal of entrepreneurial talent only waiting to be released from the constraints of social isolation'.⁶⁴

In Tanzania, since the process of liberalisation, small and private entrepreneurs have come out of isolation and are today given substantial business opportunities. However, in spite of the opportunities that are being provided, many entrepreneurs still consider government regulations and bureaucratic maze a severe hindrance to their progress. Laws and regulations, they feel, can be problematic to business starters when they are combined with a lack of transparency. The corrupt Tanzanian system often expects rent seeking. In one study on small-scale garment and furniture entrepreneurs in Tanga region, Tanzania, the entrepreneurs accused government rules, regulations and procedures of being a hindrance to their business progress.⁶⁵ 'Taxes are very prohibitive', is what every entrepreneur says. The small businesswomen and men have realised that they easily lose out to wealthier and better-connected indigenous and Asian business entrepreneurs in the corruption game. Corruption prevents many from securing premises for setting up plants. Negotiating with agencies for many of these opportunities takes up energy and drains the already scarce resource base of the small business innovator.

Conclusion and Policy Recommendations

The role government is expected to play in the wake of liberalisation and privatisation particularly for the promotion of small-scale businesses in Africa is a debatable issue. Not many agree with the idea that the invisible hand of the market can bring in the best solution. This is particularly true when many of these lagging businesses and entrepreneurs do not possess enough competitive strength to compete in a global market. Some agree that both government and non-government organisations have a role to play in supporting entrepreneurs and innovators in business. Liberalisation policies and structural adjustment reform programmes in Africa have led to higher production of traditional products and have established a large number of new businesses in both the formal and informal sectors. In the adjustment process, however, emphasis has been on competition and on 'getting prices right, rather than getting the right products'.⁶⁶ A rationally profitable decision for a single producer may end up being a costly failure for the local or national economy when simple products or services are overproduced and under-priced. Ndegwa points out the deteriorating terms of trade in the international market for traditional African products. This points to the need for encouraging the more innovative entrepreneurs. The copying type, small-scale businesses are important from the self-employment perspective only. One does notice the flocking of donors and NGOs to assisting these enterprises with micro finance based on group responsibility. This study concludes that support needs to be provided to the indigenous and local Schumpeterian entrepreneurs in the African context.

The article, through both theoretical discussion and empirical evidence, suggests breaking away from traditional lines of thinking, behaviour and doing business, requiring both motivation and energy. Setting up innovative business ventures not only requires capital but also information and skills. Breaking away from 'path dependence'⁶⁷ also requires a transparent, clean and well-organised bureaucratic and judicial system. Traditional trustworthiness based on 'the economy of affection'⁶⁸ needs to be substituted by formalised systems of trust at a level above blood, kin or local community.⁶⁹ The scale and range of small entrepreneurs' work must be widened to form the basis for productivity growth. Financial options and marketing skills must be developed, while individual business risk must be reduced to obtain these goals. Creating formalised systems of trust based on law is definitely the responsibility of the national government. Other aspects of business promotion,

however, may fall more naturally under government and non-government institutions at central as well as lower regional levels.

Our case studies in Arusha have shown that there is no lack of motivation for hard work and originality in the local business environment. The society has exhibited a general acceptance of such individual entrepreneurial endeavour. However, both entrepreneurs presented in the study would have gained if they had mentors with them. These 'mentors' would have given practical solutions, new ideas and mental encouragement.

The cases have demonstrated that entrepreneurs need improved access to information on markets, technology, design, and input materials. They would have gained from enhanced skills in business operations, particularly in marketing. The entrepreneurs expressed the need for capital, particularly for basic investment purposes. Both believed that capital for increasing productivity could be better substituted by labour.

In both cases, it is seen that the government does not pose any severe hindrance to the development of business in Tanzania. The author and the studied entrepreneurs have together reiterated that the government could definitely play a more proactive role in facilitating growth of businesses. There is also a consensus on the need for information supply and promotion of business skills among entrepreneurs.

Notes

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CONTEMPORARY INDIA—TRANSITIONS

Edited by Peter Ronald deSouza

Any biography of independent India necessarily constitutes a profound intellectual challenge. It must be framed so as to accommodate, as also to encourage a dialogue between, the multitudinous voices that comprise India. Recognising that there are many Indias within India, this volume brings together a diverse and distinguished group of scholars and commentators—including historians, philosophers, journalists, jurists, writers, economists, theatre critics, sociologists, environmentalists and political scientists—to reflect upon the multiple transitions which are under way in the polity, economy, society and civilisational space of contemporary India.

Weaving diverse perspectives and voices together, this stimulating volume of original essays presents a fascinating account of the complex processes that shape India's transition from an ex-colony to a modern nation in charge of its own destiny. It is certain to be of interest to those involved in all the social science disciplines, particularly sociology, political science, history, economics, management and gender studies. It will also serve the purpose of a single text for introductory courses on contemporary India.

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Employment, Efficiency and Entrepreneurship in Small Industry: A Study of the Baking Industry in Punjab, India

SUKHPAL SINGH

Small industry continues to play a very important role in development, particularly in developing economies. However, recent changes particularly in the policy have questioned their role and relevance for development as many ills plague this sector. The small industries sector today is viewed as inefficient, highly capital intensive and outdated in terms of production technology and, consequently, products. This article examines some aspects of small industry in the context of the secondary food processing, consumer industry—the baking industry—in the state of Punjab, India. It was found that the employment generated by the small-scale sector is irrelevant to the local economy and, therefore, does not cater to its needs. The small-scale baking industry also exhibits on the one hand elements of being capital intensive and on the other, low productivity. This industry, as such, is less efficient compared to the large-scale sectors of industry. As far as entrepreneurship is concerned, refugee households, who had started with meagre funds, dominate this industry. Only of late have entrepreneurs hailing from other diverse backgrounds started entering this sector.

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Introduction

Small industry has held a place of prominence in the development strategy and policy of many developing nations in the last century. It has been only in the recent past that the new world order and domestic policy regimes have started emphasising privatisation, liberalisation and globalisation of markets and producing sectors. This new environment led to the questioning of the role of small industries and many of them came under increasing scrutiny and criticism. It is now alleged that the small-scale sector has been unable to meet most of its objectives—employment

generation, efficient use of scarce capital, balanced regional development and use of local resources. All these had been the rationale behind the national agenda for protection and promotion of the small-scale sector in the last century.

Many of the protective policies initiated at the behest of the national government like the concessional rate of interest for credit, reservation of items for exclusive manufacture, government purchase of small-scale sector products, relaxation and exemption from labour laws and subsidised rates for raw materials and technological support, led to the phenomenal growth of the small-scale sector in India. However, these firms continued to remain small in size in order to avail of the incentives and protection extended to small firms. This is evident from the fact that more than 82 per cent of small-scale units continue to remain small investments of less than Rs 100,000.¹

The food processing industries are a major sub-sector of the small-scale industry in India. There are two types of food processing industries—the primary and the secondary. The former, i.e., primary, represent more basic and necessary processing in any agricultural economy, whereas the latter represent a more mature aspect of the industrial economy. They reflect not only higher incomes by way of demand for their output, but also lead to greater value addition to the agricultural products. The secondary processing industries are industries that use the output of primary processing industries as inputs and add value to it.

Punjab has had the leading position in India particularly in terms of agricultural development. There has also been a phenomenal growth of primary processing industries in the state. The secondary industries, like *vanaspathi* and baking, have also grown in the recent past. The effects of higher agricultural growth leading to higher incomes and investments in the 1970s and 1980s are considered reasons for this growth. This article looks at the emergence, growth, structure and entrepreneurial aspects of small-scale registered bakery units and the unregistered sector² bakeries engaged in the manufacturing of bread, biscuit and other bakery products in Punjab. It also attempts to assess the present and potential role of these units in the development of the local economy and tries to draw a policy framework for the development of the small-scale sector.

Methodology

Since Punjab too has regional diversity, both agricultural and in terms of industrial development, it was considered more desirable and useful to take a sample of industries from among two different districts,

one agriculturally and industrially developed, and the other relatively backward in both these aspects. Viewed from this angle, and with an element of convenience, Ludhiana and Bhatinda were selected for the purpose of this study.

Ludhiana is one of the central plain districts of Punjab and Bhatinda is one of the three cotton belt districts in the southern part of the state. Ludhiana is the pioneer in agricultural as well as industrial development. It has the highest yields of major crops not only within the state but also in India. Ludhiana has both higher cropping and irrigation intensity. Industrially too, the district stands apart, accounting for 29 per cent of industrial employment in the organised sector of the state. Even today, Ludhiana is the production centre of many durable consumer items. These include bicycles and their components, sewing machines, hosiery garments and food products. With respect to the number of industrial workers per thousand population, Ludhiana has the highest rank in the small-scale sector, third in the large/medium-scale sector and the highest rank in the total industrial sector in Punjab. Even in terms of per capita investment in plant and machinery, Ludhiana topped the list in the small-scale sector, and occupied the third rank in the large/medium and total industrial investment.

Bhatinda, on the other hand, though considered to be a beneficiary of the Green Revolution, lags way behind both in agricultural and industrial development. Certain pockets of the district even today do not have irrigation facilities. The district has cotton-wheat crop rotations as against paddy-wheat crop rotation in Ludhiana. The district has the lowest employment share in the organised sector at 4.35 per cent. In terms of the number of industrial workers per thousand population, Bhatinda has the lowest position in the small-scale and the total industrial sectors and the second lowest position in the medium/large-scale sector. It also ranks the lowest as far as per capita industrial investment is concerned.³ The data on the two districts gives very interesting comparisons (see Table 1).

In other parameters also, we see interesting positions of the two districts taken up for the study. As far as overall development is concerned, Ludhiana ranked at the top of the list and Bhatinda occupied the seventh position with its development index being equal to that of the state average. Ludhiana also differed in terms of urban-rural population. Ludhiana has an urban population of 42 per cent whereas it is 22 per cent in Bhatinda. In education too, one observes striking differences. Literacy rate in 1981 for Ludhiana stood at 50.6 per cent whereas it was only 27 per cent in Bhatinda.⁴

TABLE 1
District-wise Data on Units and Workers

	<i>Ludhiana</i>	<i>Bhatinda</i>
No. of units	2,867	429
No. of employed workers	83,810	10,191

Source: District Statistical Handbook, Ludhiana, 1987 and District Statistical Handbook, Bhatinda, 1987. Economic Advisor to the Government of Punjab, Chandigarh.

The sample survey included both registered (with the state directorate of industries) and unregistered units. Interestingly, it was also found that over half of these registered units had no registration under the Factories Act. The study utilised both secondary and primary data. The aspects of labour and entrepreneurship were studied with data collected by structured schedule based interviews.

Manufacturing Sector and Food Processing Industry in Punjab—A Glimpse

The registered manufacturing sector in Punjab since 1960–61 exhibited a growth rate (in its output) of around 8 per cent. Though the unregistered manufacturing sector also performed almost equally well (7 per cent), its growth rate was noticed to be lower in the first decade (1961–70). Some very striking features that one notices are that, on the one hand, the unregistered sector in Punjab has 60 per cent more capital assets, and employed 125 per cent more workers, whereas on the other, they produced less than 23 per cent of the total output when compared with the registered manufacturing sector. Processing of food products remained the single largest sector within the unregistered sector in terms of output. It, however, remained the third largest sub-sector in terms of output and employment.

The food products unregistered units in the state during mid-1980s accounted for as much as 80 per cent of the fixed capital, 61 per cent of total employment, 32 per cent of value added and only 14 per cent of the output. These shares were strikingly lower in Punjab when compared with the entire country. The same trend is observed as far as labour productivity is concerned which was lower than that in the registered sector, both in Punjab as well as in the country. But labour productivity was higher in the unregistered sector of Punjab when compared with the

entire country. The higher capital intensity in the sector could be a reason for such a trend. In fact, there seems to exist a positive relationship between capital intensity, output and value added per worker, and the rate of growth in Punjab's industry.⁵ This makes it imperative to study the food products and other industries in the unregistered sector in the state.

Growth of Small-Scale Baking Industry in Punjab

The baking industry in the state of Punjab has shown tremendous growth over the years. The baking units constituted around 8 per cent of the total units in 1979-80. This went up to 12 per cent in 1987-88. Similarly, their share in employment, investment and production too increased from 4.4, 1.1 and 0.83 per cent to 6.5, 3 and 1.2 per cent respectively during the same period. It is also important to note that the small-scale registered sector of the food processing industry grew at an annual rate of 14 per cent in terms of number of units, employment, fixed investment and output during the 1980s. This growth rate, especially in the number of units and employment, is much higher than the growth rates noted in the census and the factory sectors. Among various industries in the agro-processing sector of the state, the factory sector baking industries registered a higher growth rate. This was seen to be the reverse in case of the unregistered units. They experienced negative growth rates in various indicators of growth.⁶

The number of units in the small baking sector grew over five times during the 1980s. The growth momentum was equally strong in the bread and the biscuit sectors (Table 2). Locationally, most of the units were in the industrial and urban districts of the state. It is clear from the data (Table 2) that many new districts showed significant increase in the number of units. This could be due to the registration obtained by many of the unregistered units during this period.

In this industry, the dominant mode of ownership was found to be that of partnership though there were some proprietary units as well (Table 3). In the unregistered sector of the bakery industry, the predominant type of ownership was, however, proprietorship, though there were a few partnership units too.

Agricultural Development and Growth of Secondary Processing

In the initial stages of agricultural growth, secondary processing industries emerge and function as local household level activities, though

TABLE 2
Growth of Small-Scale Baking Industry in Punjab during the 1980s
(District-wise Number of Units)

Year	1979-80			1987-88		
	Bread	Biscuit	Total	Bread	Biscuit	Total
Amritsar	6	13	19	48	75	124
Bhatinda	9	1	10	18	7	25
Faridkot	4	10	14	5	12	17
Ferozpur	2	0	2	17	0	17
Gurdaspur	0	4	4	0	18	18
Hoshiarpur	0	0	0	0	5	5
Jalandhar	4	6	10	21	33	54
Kapurthala	1	0	1	12	10	22
Ludhiana	8	9	17	26	42	68
Patiala	5	0	5	56	0	56
Ropar	0	0	0	4	35	39
Sangrur	0	4	4	3	17	20
Total	39	47	86	211	254	465

Source: State Directorate of Industries, Chandigarh, Punjab.

TABLE 3
Pattern of Ownership in Baking Industry in Punjab
(District and Sector-wise Number of Units)

Ownership Type	Ludhiana			Bhatinda			Both		
	SS	US	Both	SS	US	Both	SS	US	Both
Proprietary	3	6	9	1	8	9	4	14	18
Partnership	6	2	8	5	1	6	11	3	14
All	9	8	17	6	9	15	15	17	32

Source: Primary survey carried out by the authors in 1991.

Note: SS—small-scale sector; US—unregistered sector; Both small-scale and unregistered sectors put together

there is also the presence of small scale rural and semi-urban manufacturing activity.

The average age of these bakery units in Punjab, particularly those in the small-scale registered sector, was around 16. In Ludhiana, they had a longer standing than those in Bhatinda district (Table 4). This can be attributed to the earlier exposure of Ludhiana to the processes of urban and industrial growth. Ludhiana also happens to be the place

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TABLE 4
Pattern of Emergence of Baking Units in Punjab
(District and Sector-wise Number of Units)

Year of Emergence	Ludhiana			Bhatinda			Both		
	SS	US	Both	SS	US	Both	SS	US	Both
1950 & before	1	2	3	1	1	2	2	3	5
1951-60	2	3	5	0	1	1	2	4	6
1961-70	0	1	1	0	1	1	0	2	2
1971-80	2	2	4	1	3	4	3	5	8
1981-86	4	0	4	4	3	7	8	3	11
All	9	8	17	6	9	15	15	17	32

Source: Same as Table 3.

Note: See Table 3.

where most of the refugees from West Punjab settled after partition. Many of them took up small jobs to begin with. This included the establishment of baking units, repair shops and milk vending. The growth of industries and the concentration of the industrial and urban working class also created higher demand for bakery products to which these refugee entrepreneurs responded positively.

In the unregistered sector, Bhatinda district demonstrated a significant emergence and growth of bakeries during the 1970s and 1980s. This was not so in the case of Ludhiana (Table 4). This could be due to relatively late development of agriculture in Bhatinda and, thus, the growth of commercial towns and the dominance of the relatively large (within the small-scale sector) units in Ludhiana, which must have made it difficult for the new entrepreneurs to enter this line of business.

Size Structure and Working of Baking Units

Though bakery units have been treated, for purposes of analysis, as small-scale units, among themselves they too vary in size. There are bakery units with fixed capital investment varying from below a Rs 100,000 to as high as Rs 1 million. One unit in Ludhiana was an exception—having investment of more than Rs 2 million. All of them, in terms of the criterion laid down by the Indian government, fell in the category of small-scale industries. They still continue as small-scale industries as the investment criteria now been further revised to Rs 30 million from the 1990 criterion of Rs 6 million.⁷ Most of these units employed less than twenty workers. Ludhiana fared better in terms of technology. It has two

TABLE 5
Average Age and Size of Baking Units in Punjab
(District and Sector-wise Number of Units)

Average Variable	Ludhiana		Bhatinda		Both	
	SS	US	SS	US	SS	US
Age of the unit (years)	18.1	27.5	13.1	16	16.2	21.5
Fixed capital investment*						
Initial	2.9	0.575	1.59	4.78	2.38	2.80
Present	6.7	48.375	3.58	23.30	5.46	35.12
Employment (no. of workers)						
Total	31	5	11	4	22	4.5
Skilled	5	1	2	1	4	1
Working capital (Rs)	61,444	5,975	26,333	1,988	47,400	3,864.7
Production (Rs '000/month)	305	39.75	162	28.67	248	33.9

Source: Same as Table 3.

Notes: *Investment is in Rs '00,000 for small-scale sector and in Rs '000 for unregistered sector. Also see Table 3.

mechanised and three semi-mechanised bread units as against none in Bhatinda district.

The early exposure of Ludhiana to industrialisation in general, and to this industry in particular, is reflected in the size of the bakery units. Not only did bakeries in Ludhiana have larger average fixed capital investment, they also started with a relatively larger initial fixed capital investment. The average fixed capital investment in the initial year was Rs 159,000 in Bhatinda whereas it was Rs 290,000 in Ludhiana. The present fixed capital investment also showed a similar trend—Rs 600,000 in Ludhiana and Rs 400,000 in Bhatinda. As far as employability is concerned, the bakery units in Ludhiana employed almost twice the number of workers employed in Bhatinda. This remained true in terms of both total number of workers and total number of skilled labourers. The same trend is observed in terms of the working capital requirements and production patterns of bakeries in these two districts (Table 5).

The larger scale of operation in Ludhiana could be the combined result of the presence of more mechanised bakeries, longer standing in the market resulting in well-established markets, higher local demand for bakery products and the management of these units—run on more commercial and industrial lines by people from many walks of life. One

interesting observation is that most of this was a post-1970 phenomenon. This, thus, supports the well-established hypothesis that secondary processing industries often emerge as a result of agricultural growth—Punjab experienced this growth sometime during the mid-1960s.

One does also notice that even in the unregistered sector, the units, on average, are much older (27.5 years) in Ludhiana, compared to those in Bhatinda (16 years). In many other parameters—present fixed capital investment, employment, working capital and production—the bakeries in Ludhiana were larger in size than those in Bhatinda district (Table 5). However, the average initial fixed capital investment was found to be much lower in Ludhiana than Bhatinda. This can be attributed to the period of emergence. Most of the bakeries in Ludhiana emerged earlier (in the 1970s and 1980s) than those in Bhatinda. The initial fixed capital investment in Ludhiana was less than Rs 600 whereas it was Rs 4,780 in the case of Bhatinda. The investment figure shows a reverse trend when the present fixed capital investment is considered. It is twice in the case of Ludhiana (Rs 48,375 in Ludhiana and Rs 23,300 in Bhatinda). In terms of generation of employment, the average employment per baking unit is small. It is five and four persons in Ludhiana and Bhatinda respectively. The trend remains more or less the same as far as employment of skilled labour goes. All these units, on an average, employed one skilled worker.

Capacity Utilisation and Markets

Unlike any other primary processing industries, baking is a perennial activity. It is not directly dependent on agricultural raw materials but obtains raw materials, after some processing, from primary processing industries. Most of the bakery units operated for twelve hours every day except some mechanised units in Ludhiana which operated two shifts a day.

In the unregistered sector, most of the bakeries worked for more than eight hours a day. Only one-third of them operated at full capacity, with another third having capacity utilisation ranging between 75 and 99 per cent. Oven baking was the most common practice in all bakeries. The utilisation of capacity was found to be particularly higher in Bhatinda district than in Ludhiana which could be due to limited number of bakeries in Bhatinda and the growing demand for bakery products in the district. This is evident from the fact that some of the baking units in Ludhiana (small-scale sector) were supplying bread and other bakery items to some towns of Bhatinda district.

As far as raw material procurement and sale of final products by the unregistered sector units are concerned, half of the bakeries purchased

raw materials (inputs) from the retail market and the rest from the wholesale market. In all cases, the markets were local. The sales were done through bakery-cum-shop outlets. Most of the bakeries were found to take up biscuit-making on a hire basis for the rural and urban households. The raw materials were provided by the clients and the units did the job work.

In terms of their market operations, the units in Ludhiana had markets even outside the state, particularly in the neighbouring states of Haryana and Rajasthan. On the other hand, the Bhatinda units confined themselves to the state of Punjab. The bakery units in both districts had commission agents who helped in the trading of the products on a wholesale basis. Some units in addition to this channel had their own retail outlets and showrooms in cities and towns. The supply of products to the market was done on a daily basis—bread being a perishable commodity. Biscuits and other items were supplied less frequently.

Subcontracting, which is prominent among most small-scale industries in Punjab, for example in bicycles, hosiery and soap, was not found in the baking industry. The units in both these sectors were operating more or less independently. The reasons for the absence of this practice were lower profit margins, protected local markets, delay in getting payments particularly from large buyers, and rejections by the parent unit of products of poor quality. The large firms (bakery units) are also wary of tying up with small bakeries due to low quality of products and the lack of commitment of these units in keeping to production schedules in tune with the orders placed.

Employment and Working Conditions

Most of the workforce in these units came from outside the state. Only in some units, the skilled labour happened to be from Punjab itself (Table 6). Except for one unit in Ludhiana in the registered small-scale sector, all of them employed migrant labourers. The wage rate differed for skilled workers. The skilled workers received an average wage of Rs 1,000 per month whereas the unskilled workers received Rs 400 per month. Most of them were employed on daily wages and had no security of job and benefits of paid holidays.

Efficiency

The capital-labour ratio (K/L) is one of the most commonly used indicators to measure labour intensity especially in studies relating to

TABLE 6
Distribution of Baking Units According to their Sources of Labour
(District and Sector-wise)

Source	Ludhiana			Bhatinda			Both		
	SS	US	Both	SS	US	Both	SS	US	Both
Within the state	1	1	2	0	2	2	1	3	4
Outside the state	8	6	14	6	6	12	14	12	26
Both (50:50)	0	1	1	0	1	1	0	2	2
All	9	8	17	6	9	15	15	17	32

Source: Same as Table 3.

Note: See Table 3.

implications of technological choice on employment. In addition to this indicator, some other indicators like capital-output ratio, labour-output ratio and value added are also measures of efficiency in industry. The efficiency levels in terms of factor productivity in small industry in India have been found to be quite low.⁸ One notices that during the last two decades, on the one hand, there has been an increase in capital intensity of production, a substantial increase in labour productivity and only a marginal rise in capital productivity. On the other hand, one also notices that the efficiency in terms of the value added to output ratio has declined in general and this is being seen as the failure of the small sector and lack of technological progress in this sector. It is important to recognise that there can be efficiency differences across industry groups as well as regions within the small sector. In order to address the issue of efficiency at a specific industry and region level, the present study tries to understand the issue of efficiency of the small-scale baking industry in the state of Punjab.

The small-scale sector of food processing, though with much lower capital investment, employment and output per unit compared to the factory and the large-scale sectors, had a much higher capital-labour ratio and much lower output-labour ratio and output-capital ratio. The high capital intensity could be due to the large number of self-employed persons in these units and a higher level of sickness in this sector. On the whole, the small-scale sector was found to be relatively less efficient in terms of labour and capital productivity in spite of being more capital intensive.⁹

Across the two districts, one notices that Ludhiana is less capital intensive than Bhatinda. The capital productivity, however, is more or less the same in both the districts. Labour productivity is seen to be higher in the capital intensive Bhatinda district. In the unregistered

TABLE 7
Ratios for the Baking Industry in Punjab Districts and Sectors

Ratio	Ludhiana		Bhatinda	
	SS	US	SS	US
FCI/L (Rs.)	21,612.9	9,675	32,545.5	5,825
TC/L (Rs.)	23,595	10,870	34,939.4	6,322
O/FC	4 0298	7.38	4.0726	11.08
O/L (Rs.)	88,548.38	71,550	132,545 4	64,507.5

Source: Same as Table 3.

Note: See Table 3.

sector, Ludhiana has both higher capital intensity and labour productivity, but lower capital productivity than Bhatinda. Further, though the unregistered sector is less capital intensive and has lower labour productivity, its capital productivity is higher than that of the organised small-scale sector (Table 7). Interestingly, it is noted that the baking units performed better in terms of labour-output, capital-output, and capital-labour ratios. They scored higher on all these three ratios when compared with the performance of the entire small-scale sector across the country.¹⁰ This helps us to conclude that the baking units are more capital intensive and productive within the state.

Production Function Analysis

In the small-scale sector of the bakery industry, capital and labour explained only about 42 per cent of the output variations and the sum of coefficients (0.65) suggested decreasing returns to scale. This analysis for the unregistered sector gave a much better explanation (70 per cent) and pointed at the increasing returns to scale. Perhaps what it indicates is that there are lower costs when the size is small due to the lower overhead and professional costs.

Small-scale bakery sector

$$\ln(RP) = f(\ln(NK), \ln(RL))$$

Constant	-2.646570
Std Err of Y Est	0.737013
R squared	0.424587
No. of observations	15
Degrees of Freedom	12

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X-Coefficient(s)	0.037061	0.645264
Std Err of Coef.	0.219502	0.303085
Stu. t =	1.168842	2.128987
Sum of Coefficients		0.682325

Unregistered bakery sector

$\ln(RP) = f(\ln(NK), \ln(RL))$

Constant		-8.381610
Std Err of Y Est		0.418966
R squared		0.709220
No. of observations		17
Degrees of Freedom		14
X-Coefficient(s)	0.00666	1.301545
Std Err of Coef.	0.181621	0.333982
Stu. t =	-0.03670	3.897051
Sum of Coefficients		1.322115

Entrepreneurial Aspects

The success and failure of any enterprise or industry depend not only on the choice of the business line, but also on the type of ownership, organisational structure, scale of production, technology and marketing management. In most of these aspects, the role of the entrepreneurs and their background is very crucial.

In Ludhiana, the baking units are independent in their origins from the trading and merchant background. The owners of most of the units in Ludhiana hailed from backgrounds which included bakery employees, bakery owners, government employees, refugees from West Pakistan and petty shopkeepers (Table 8). Even the patterns of other integrated businesses of the entrepreneurs and their families confirmed the relatively diversified interests in industry.

On the other hand, Bhatinda had bakery units having relatively recent origin. Entrepreneurs hailing from diverse groups own these units. Except for one unit, the entrepreneurs were either students, commissioning agents or traders in the oil business. In Bhatinda, the occupational background of the parents of these new entrepreneurs included traders and agriculturists. This was, however, very different in case of Ludhiana where the parents were non-agriculturists or non-traders (Tables 8 and 9).

Another aspect noted was that both Hindus and Sikhs had equal representation in this enterprise, though of the same caste—Khatri—most

TABLE 8
*Distribution of Baking Units According to the Owners' Previous Occupation
 (District and Sector-wise Number of Units)*

Occupation	Ludhiana			Bhatinda			Both		
	SS	US	Both	SS	US	Both	SS	US	Both
Commission agent	0	0	0	1	0	1	1	0	1
Student	0	1	1	3	4	7	3	5	8
Bakery owner/ partner	2	3	5	1	0	1	3	3	6
Bakery employee	0	2	2	0	4	4	0	6	6
Oil trader/cloth merchant	1	0	1	1	0	1	2	0	2
Government employee/ ex-serviceman	2	0	2	0	1	1	2	1	3
Refugee from Pakistan	2	2	4	0	0	0	2	2	4
Petty shopkeeper (<i>kachwai</i> , milk vender)	2	0	2	0	0	0	2	0	2
All	9	8	17	6	9	15	15	17	32

Source: Same as Table 3.

Note: See Table 3.

of whom hailed from West Pakistan and had come over to India as refugees during partition. Another interesting aspect to be noted is the difference in the caste groups that controlled the bakery business in the two study districts. In Ludhiana, the Khatri (both Hindu and Sikh) who account for a major share in the district's population controlled the entire small-scale bakery business, whereas in Bhatinda, it was the Banias (trading community) who controlled the entire bakery business (Table 10).

Another interesting aspect that emerged was the reason many of the entrepreneurs chose this as a vocation. The frequency distribution suggests that in Ludhiana, the predominant factor was the pre-existing skill that many of the entrepreneurs had in food processing, particularly in baking. Most of the refugees hailing from Pakistan had had a good stint in this business or others which included milk vending and sweet making.¹¹ Another facilitating factor was the relatively low initial investment and higher returns. These factors made it easy for most entrepreneurs to enter and stay in this industry (Table 11).

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TABLE 9
Distribution of Baking Units by the Owners' Fathers' Occupation
(District and Sector-wise Number of Units)

Occupation	Ludhiana			Bhatinda			Both		
	SS	US	Both	SS	US	Both	SS	US	Both
Commission agent	0	0	0	1	0	1	1	0	1
Agriculturist	1	0	1	2	1	3	3	1	4
Bakery owner	1	1	2	0	2	2	1	3	4
Bakery employee	1	1	2	1	1	2	2	2	4
Trader/merchant	2	0	2	1	0	1	3	0	3
Government employee	2	1	3	1	0	1	3	1	4
Refugee from Pakistan	0	1	1	0	2	2	0	3	3
Petty shopkeeper (milk vendor)	1	3	4	0	0	0	1	3	4
Private firm employee	1	0	1	0	0	0	1	0	1
Wage labourer	0	1	1	0	3	3	0	4	4
All	9	8	17	6	9	15	15	17	32

Source: Same as Table 3.

Note: See Table 3

TABLE 10
Patterns of Caste Background of Baking Unit Owners
(District and Sector-wise Number of Units)

Caste	Ludhiana			Bhatinda			Both		
	SS	US	Both	SS	US	Both	SS	US	Both
Bania	1	0	1	3	0	3	4	0	4
Jat Sikhs	0	0	0	1	0	1	1	0	1
Khatri/Aron	8	5	13	2	2	4	10	7	17
Brahmin	0	1	1	0	1	1	0	2	2
Rajput	0	0	0	0	1	1	0	1	1
Backward Caste	0	2	2	0	3	3	0	5	5
Scheduled Caste	0	0	0	0	2	2	0	2	2
Total	9	8	17	6	9	15	15	17	32

Source: Same as Table 3.

Note: See Table 3.

TABLE 11
*Frequency Distribution of Factors Responsible for the Choice of Industry
 (District and Sector-wise Number of Units)*

Factors	Ludhiana			Bhatinda			Both		
	SS	US	Both	SS	US	Both	SS	US	Both
Relatively more profitable (RMP)	2	0	2	3	0	3	5	0	5
Pre-existing skill (PS)	3	3	6	1	8	9	4	11	15
Easy to start (ES)	1	1	2	1	0	1	2	1	3
RMP & PS	1	0	1	0	0	0	1	0	1
RMP & ES	0	1	1	0	0	0	0	1	1
PS & because of parent unit (BPU)	1	1	2	0	0	0	1	1	2
PS & ES	1	2	3	1	1	2	2	3	5
All	9	8	17	6	9	15	15	17	32

Source: Same as Table 3.

Note: See Table 3.

In Bhatinda, the relatively high profitability of this industry was the most predominant factor. However, in the unregistered sector, most of the owners had been exposed to this business prior to their starting of the enterprise. They were either associated as employees or had been running bakeries with some partners. Some of them also had parents associated with a similar trade or who had non-agricultural and non-trading occupations (Tables 8 and 9). One of the predominant occupational categories was wage labour. This is particularly peculiar to Bhatinda. This might be the reason why the bakery industry in the unregistered sector is in the hands of people with meagre funds with occupational background in petty business, trade and wage labour.

Similar evidence is also witnessed in the caste affiliations of the owners. Though the Khatri continue to be the largest community among the surveyed bakeries, the scheduled caste and the backward caste members are also important players. Brahmins too have come into this business. The analysis of factors relating to the choice of this form of entrepreneurial vocation suggests that mostly pre-existing skill led many of them to enter this industry (Table 11).

Conclusion

Some of the striking revelations this study brought to the fore include how the registered and unregistered status brings in various differences among the units. The registered baking industry had partnership ownership whereas the unregistered sector units had majority proprietorship. Most of the units in the registered sector were of recent origin or had graduated into registered small sector only in recent past, i.e., after the 1960s. The unregistered units are relatively young in age.

In the small-scale sector one also notices variation in size of the units. Small and large, mechanised and non-mechanised units continued to exist in the bakery sector. The employment pattern in these units also shows similar trends. In terms of production, more than half of the registered small-scale units had as low production as the unregistered units. In other aspects, sharp differences could be noted in the structure and conduct pattern of the units in these two sectors.

The industry employs predominantly migrant workers. Some skilled workers were local. In fact, from the employment point of view, this industry did not have much to offer to the local people, despite the fact that the baking industry did have strong backward linkages with other sectors in the economy. The reason that could well explain this phenomenon is that the type of job offered and generated did not find favour among the local youth.

The small-scale baking industry sector favoured the growth of entrepreneurial evolution. The entrepreneurs, however, did not show any evidence of trading background. They were more akin to the skill patterns of their communities and families. Most of them had some kind of association either as bakery owners or bakery employees in their earlier occupations.

The parental occupation revealed one of the most interesting phenomena. The caste origin, particularly for the Khatris who had a background in trading, emerged as an important reason why many took up this trade. Many of these Khatris had also experienced the trade during their pre-migration days. Overall, pre-existing skill is the most important contributory factor for most of them to enter this line of business. One welcome feature of this industry was its requirement of funds. Since funds were not a major constraint in this industry due to the small size of operations, this trade opened doors to people from the lower income groups to earn a living. The small-scale and the scale neutral nature of the business allowed most of them to continue with the business.

Notes

1. M.H. Balasubrahmanya, 'Shifts in India's Small Industry Policy', *Small Enterprise Development*, IX-1 (March 1998).
2. The units which are not covered under the Factories Act are called the unregistered sector. These can be small-scale units or others, as many small units are not registered under the Factories Act due to the small number of workers employed. Further, within the unregistered sector, there are three types of units: those employing six or more workers with at least one hired worker (directory establishments), those employing up to five workers with at least one hired worker (non-directory establishments); and those which do not use hired workers at all (own-account enterprises).
3. R.S. Bawa and M.K. Sharma, 'An Analysis into the Inter-district Variations in Industrial Development in Punjab', *PSE Economic Analyst*, III-1 & IV-2 (December 1982 and June 1983).
4. Economic Intelligence Service, Centre for Monitoring Indian Economy (CMIE), *Profiles of Districts* (Bombay: CMIE, 1993).
5. H.S. Sidhu, 'Agricultural Development and Agro-Industries in the Process of Industrialisation: A Case Study of Punjab (India)', *International Journal of Punjab Studies*, III-2 (1996).
6. S. Singh and Vinod Vyasulu, 'Growth and Structure of the Food Processing Industry in the Punjab in the Eighties', *Indian Journal of Agricultural Economics*, XXXV-4 (1990).
7. Balasubrahmanya, 'Shifts' (no.1 above).
8. Ibid.
9. Singh and Vyasulu, 'Growth and Structure' (no. 6 above).
10. Balasubrahmanya, 'Shifts' (no.1 above).
11. I. Nabi, *Entrepreneurs and Markets in Early Industrialisation—A Case Study from Pakistan* (San Francisco: International Centre for Economic Growth, Institute of Contemporary Studies, 1988); and Sukhpal Singh, 'Bicycle Industry in India—A Study of Localisation, Production, and Market Structure' (Unpublished M Phil thesis, JNU, New Delhi, 1989).

Book Reviews

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Deccan Herald

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Sage Publications
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Pushpa Sundar, *Beyond Business: From Merchant Charity to Corporate Citizenship: Indian Business Philanthropy through the Ages*, New Delhi: Tata McGraw-Hill, 2000, 393 pp.

The book presents a historical view of Indian business philanthropy in the context of the economic, socio-political and cultural developments in the country from the beginning of modern industry in the second half of the 19th century to the present. Although business contribution to society has been researched and documented in the West, in India it has excited hardly any interest. Most of the historical and sociological studies relating to the religious, social or political aspects of Indian business deal only peripherally with philanthropy. This is especially true for the developments in modern business philanthropy. The present book provides us with a systematic overview of the different aspects of business philanthropy in India and for that reason it is a very useful contribution to the literature on entrepreneurship.

The strength of the book is more than providing an overview of a neglected topic of research. The main part consists of a historical analysis in which the development of business philanthropy in India is linked to the development of business and industry in the country. In other words, the book takes a comprehensive look at Indian business philanthropy and explores the interrelationships between philanthropy and its wider context. By doing so, the author shows that the concept of parting with a portion of one's surplus wealth for the good of society is neither modern nor a Western import into India. In fact, the practice of business giving continued through the ages. However, as economic, political and social conditions changed, so did business response to social need. This can be summed up as a shift from merchant charity to corporate citizenship. The main part of the book traces these shifts and their causes through four historical periods which mark the different stages in the development of Indian industry as well as modern philanthropy.

The first shift was from a more or less purely ameliorative charity for religious reasons and causes during the pre-industrial era (pre-1850), towards the more Western form of philanthropy in the period 1850–1914. This period saw the beginnings of industrialisation in India

and, like their counterparts in the West, the newly rich business families began to set up trusts and endowed a host of modern institutions such as schools, colleges, hospitals, orphanages and widows' homes, art galleries and other propagations of Indian culture. At the same time, they continued to contribute to older forms of charity such as the building and maintenance of temples, *dharamashalas* and water tanks, so that there were elements of both charity and philanthropy in business giving during this period.

In the second phase (1914–60), which was the golden period of both Indian capitalism and business philanthropy, there was a maturing of philanthropic practices. Apart from making political donations for the freedom struggle, business also contributed to many of the social and cultural causes associated with the movement such as the revival of Indian art and culture and nationalist education. Many of India's leading businessmen came under the spell of Mahatma Gandhi and his theory of trusteeship of wealth. When India became free, the independent state looked to the business community to propel the country to a prosperous future and in the euphoria of independence, the business class, confident of its capabilities, responded both by creating more wealth and by utilising it for non-business purposes.

The next shift came in the 1960s which ushered in an era of economic and political troubles and saw the business community operating under several constraints. The state also took on many of the obligations that were traditionally the responsibility of the society as a whole, such as education, care of the sick, relief in the wake of natural calamities and care of the destitute. It led to a corresponding decrease of interest in private philanthropy. Mistrust of business consequent to sharp and unethical practices by some, coupled with high taxes to finance state-led development, further contributed to disinclination to part with private wealth for public benefit. Ironically, the high tax regime aided by deterioration in business morality led to a large expansion in the establishment of charitable trusts for purposes of tax planning.

The disillusionment consequent to the failure of the government to remove poverty and bring about social change at the pace required to remove the ever-widening gap between the rich and the poor and to provide a richer quality of life, led to a renewed interest in private initiative to spearhead change. It made individuals look to voluntarism as a solution and an alternative to official action, and made business more conscious of the need to contribute to approved national development goals.

The 1970s thus saw a renewed corporate interest in social concerns and a new element emerged on the philanthropic scene—corporate philanthropy, as distinct from family business philanthropy. Spurred partly by the realisation that supporting community development through philanthropic giving is in their own best business interests and partly by the use of the carrot and stick method by the government, several business leaders began to advocate more social responsibility on the part of business. Of this, philanthropic giving was only one aspect, the others being more ethical business practices and concern for the physical environment in which business operated. There was a diversification in the causes supported, such as afforestation, science education for the people, preservation of monuments, women's rights and consumer education.

The post-1980 period saw an upswing in business fortunes due to economic reforms and other factors and with it, a re-emergence of self-confidence. It increased business willingness and ability to give, as well as public and government expectations of business. This contemporary phase, characterised by corporate citizenship, has been a further swing away from charity and traditional philanthropy towards more direct engagement in mainstream development concerns and in helping disadvantaged groups in society.

Along with this historical overview, the author discusses a number of more general issues related to business philanthropy in India. Here, I would like to point out three of them. The first one concerns the motivation behind business philanthropy. When describing the different historical periods in business philanthropy, the author emphasises that its motivation has never been entirely altruistic, neither in India, nor in the West. She points out that the aspect of self-interest in business philanthropy in India has become more important in recent times with the rise of corporate sponsorship. Sponsorship or cause-related marketing is becoming increasingly popular among corporations as a way of contributing to charitable causes. Through sponsorship, the donor-sponsor receives immediate and direct publicity in return for his contribution, in contrast to the more intangible and long-term goodwill derived from either direct company giving or giving through trusts. This recent trend of 'commercialisation' of philanthropy is therefore to be seen as further blurring the thin line between philanthropy and the self-interest of businessmen.

The second issue that the author regularly discusses in her book is the comparison between business philanthropy in India and business philanthropy in the West. Her analysis seems to indicate that there are both significant differences and remarkable similarities between the developments

in India and the West. It would be interesting to extend this comparative perspective further by including information about developments in business philanthropy in other Asian countries, especially in Southeast and East Asia. Such an approach could provide us with insight into the question whether there is a specific Asian pattern of business philanthropy that is different from that practised in the West.

The third of the more general issues discussed in relation to the central theme of business philanthropy in India is the role of foreign companies. The author points out that expatriate businessmen and multinational corporations have not played a major role in the development of philanthropy in India in the past. Following the process of economic liberalisation, however, the importance of business philanthropy by multinational corporations seems to have grown in India. Related to this issue of business philanthropy by foreign companies is the growing importance of businesses set up in India by non-resident Indians (NRIs). This aspect is unfortunately not discussed in the book. It would be interesting to find out to what extent and in which manner NRI businessmen part with a portion of their profits for the good of Indian society. And in what respect they differ from Indian businessmen or multinational corporations from the West, especially in regard to the size of their contributions, the activities selected, and the channels of distribution used. This topic, along with the suggestion of comparison with other parts of Asia, could maybe be taken up for research by the Indian Centre for Philanthropy of which the author of this interesting and well-informed book is the Founder-Director.

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MARIO RUTTEN

A.V. Srinivasan (ed.), *Managing a Modern Hospital*, New Delhi: Response Books, 2000, 404 pp.

With economic liberalisation, the Indian government has been encouraging more and more private sector participation in health care. This has had a considerable impact on the hospital industry which has attracted a considerable amount of investment both from within and outside the country. The resultant growing corporatisation of hospitals has created more need for better management in hospitals (see for instance, Brijesh C. Purohit, 2001, 'Private Initiatives in Health Care', pp. 87-97, in *Health Policy and Planning*, Oxford University Press). Simultaneously, the

growing technology and complexity of modern hospital organisation is also contributing to developing hospital management as a separate branch of management discipline. With the advent of multinationals and NRI investment in health care, which emphasise developing the hospitals, by and large, on the lines of hospitals in the United States, the role of managers in corporate hospitals too is becoming an important aspect of management education in the country.

Despite the growing importance of good hospital management, the pace of literature on this subject in the country has been rather slow. In this direction the book under review edited by A.V. Srinivasan is a good contribution, focusing on various aspects of hospital management. The book comprises seventeen chapters contributed by various experts in their respective fields. The book covers almost all major aspects of hospital management including planning, organisational structure and management of finances, human resources, hospital materials, hospital stores, pharmacy, drugs, hospital information systems, medical records and hospital wastes. It also covers aspects like operation research techniques, patient relations, medical audit and administration and ISO 9002 certification. The first chapter brings out an analysis of the market size of private corporate hospitals and its potential and role in shaping the future of the hospital industry. It also highlights the need for hospital managers which might come forth with the expansion of hospital industry. Chapter 2 is a good guide, in brief, to planning a modern hospital. When it comes to hospital organisation structure, the same holds true for Chapter 3. Likewise, a very good analysis of various financial options available to the hospital industry is carried out in the chapter on financial management. A variety of details pertaining to human resource management are provided in an analytical form in Chapter 5. This is followed by three technique oriented chapters dealing with materials management, pharmacy, drug management and HMIS. In line with these chapters, Chapter 12 is also focused on techniques of operation research like PERT, CPM and queuing models. A detailed discussion regarding maintenance of medical records is provided in Chapter 11. Chapter 13 on hospital waste management gives a good description of various methods of hospital waste management. The crucial aspects of patient relations and medical audit comprise the subject matter of Chapters 14 and 15. Finally, the last two chapters update the readers about ISO 9002 certification for hospitals. Thus, the book covers various important aspects and dimensions of managing a modern hospital. Being an edited volume, there are bound to be differences in style of presentation and

methodology adopted by authors of individual chapters. This, however, adds variety to the presentation style within the book. Nonetheless, the comprehensiveness and coverage of the subject matter in various chapters make the book valuable to all interested in the discipline of hospital management. Especially, the practical illustrations from various hospitals enhance the utility of the book in implementation of various management concepts in the hospital industry. These illustrations help to develop conceptual clarity and provide insights to deal with individual topics in greater detail. It also highlights the fact that in the Indian context, there is a lot of scope to develop more case studies on various individual management aspects of the hospital industry. At this moment, given a dearth of literature especially of Indian origin, this book is a very useful volume on the subject of hospital management for physicians, managers, hospital administrators, hospital entrepreneurs, policy makers and students of hospital management and administration.

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BRJESH C. PUROHIT

A.S. Ramasastry, *Quantitative Methods for Valuation of Financial Assets: 100 Questions and Answers*, New Delhi: Response Books, 2000, pp. 199.

A much-needed book on valuation of financial market instruments has finally arrived albeit a bit late. The book would have been a hot seller had it been out seven years earlier. The era of small investors is over and the discerning eye of the small investors looking for tips from various sources is lost in the darkness of mutual funds and FIIs. During the early 1990s, when the small investors flourished, the bookstalls at the railway stations and bus stands abounded with books on how to invest in stock exchanges. These books used to sell like hot cakes by working on the sentiments of small investors without offering much education. The fundamentals and valuation of stocks were not given much credence. This book fills the gap of knowledge on financial instruments by providing academic insights. The book is attractive enough in size as a voluminous book would put off the reader and the price too is quite reasonable. The concept of the book, the style and the presentation are very

user friendly and people interested in understanding financial concepts can use the book as a ready reckoner. The book is written in a very simple language and the author's efforts to simplify complex financial expressions should be commended.

All the five sections make interesting reading with the fifth one on spreadsheets being the most interesting. The reason is quite simple. While most people are aware of the use of the spreadsheets for financial analysis, very few actually know how to use them. The lacuna is on the part of the software manufacturers and the authors of the software user's manual. Most of them are software professionals and have little understanding of financial terms. The section on spreadsheets in the book provides insights about the software from the viewpoint of the finance professional.

The first four sections are the technical sections which have been covered in great detail. However, sequencing of the questions in each section and between each section leaves a lot of room for improvement. Inter- and intra-references on certain topics make it difficult for the reader to sift through pages. There are certain common quantitative calculations, which could have been put under a common section where the concepts would have been easy to understand rather than keeping to one section and providing references. The section on equity could have had more substance than presented by the author. Another lacking feature in this book that is apparent to the reader is the non-availability of live examples to prove the point in each answer.

The explanations for 'Duration' in the bonds section, H-model and Fundamental and Technical analysis in the equity section, the concepts of diversification in the portfolio section, the use of Block—Scholes in the options section and the scenario analysis in the spreadsheets section have been dealt with in an exceptional manner. The way these concepts have been explained gives an insight into the high degree of understanding and the experience of the author.

A word by way of suggestion to the author is to include trading on the Internet and management of portfolios in the era of de-materialised accounts in the next edition of the book which should come out soon. Using his in-depth knowledge, it would be a very interesting reading for investors.

The book is overall a very valuable and useful source of knowledge for all people interested in the financial markets and is a must for all libraries.

Nasir Tyabji, *Industrialization and Innovation: The Indian Experience*, New Delhi, Sage Publications, 2000, 162 pp.

Economies progress from primary (agricultural) through secondary (industrial) to the tertiary (service) sector. The transition at each stage is facilitated by a mastery of the technology which goes beyond the basic minimum needs of manufacture/production, and enables innovation in the technology/process of manufacture itself. In other words, the economy should not only know 'how to make' but also know 'how to make better'. It is common knowledge that the Indian economy has traditionally focused its attention more on securing the 'know-how' of manufacture/production than the 'know-why', and in the process missed out on innovation and thereby the impetus for the real progress of the economy. Nasir Tyabji's book provides a historical analysis of the evolution of the Indian industry with a view to highlighting the factors that have contributed to the lack of innovativeness in the Indian economy, especially its manufacturing sector.

As mentioned in the preface, the book is an outcome of the research done by the author during a senior fellowship awarded to him by the Nehru Memorial Museum and Library (NMML). The six chapters of the book are articles (or parts of them) written by the author on different occasions. The details of these articles/papers are also given in the preface. Even without such an acknowledgement, it would have been obvious that the book was not written as an integrated work, planned and executed as such. The lack of integration and coherence—the absence of a unifying link—across the chapters is apparent. The disproportionately small size (three-and-a-half pages as against an average of twenty-two pages for the other chapters) of the last chapter, which is apparently the only chapter specifically written for the book and is meant to provide an integrated perspective of the material assembled in the preceding chapters, could also be suggestive of the weak linkages—or perhaps the linkages are so obvious that there is no need to elaborate further on them. The latter view may be difficult to sustain because the linkages are not obvious to the non-expert reader. In any case, this chapter (Chapter 7), which is very appropriately titled 'Knowledge, Innovation and Industrialization: Lessons from India', implies an intention to consolidate and elaborate on the lessons from the preceding analysis. It is obvious that the promise implied in the title of the chapter has not been fulfilled. To this extent, this chapter and the book itself, for which this chapter was to provide

an integrative framework and conclusion, are disappointing, especially because the analysis in the preceding chapters is fairly comprehensive and well-documented.

The first chapter of the book ('The Inheritance: The Corporate Sector in India in the Globalized Regime') examines the technological competencies of Indian corporates through three case-studies—one expansion (TISCO) and two unsuccessful attempts at foreign collaboration (NOCIL and Escorts). The reasons for choosing these case-studies are not clear, and the conclusions drawn from them (that the technological competency of Indian corporates is primarily in unbundling their requirements and sourcing for them and that financial institutions play a critical role in determining the final outcome) can at best be described as vague. It would have made a better contribution to our understanding of the technology competencies and development processes of Indian companies, if the author had chosen successful and unsuccessful cases from each category (expansion/modernisation and foreign collaboration) and made a comparative analysis of successes and failures.

Chapter 2 ('Import-substituting Industrialisation, Ancillarisation and the Spread of Manufacturing Activity') is about the development of the motor vehicle ancillary industry in India. The analysis is confined largely to the pre-independence developments in Madras. It is concluded that the licensing system helped the industry to concentrate in certain places and stifled the indigenous efforts for developing the technology in other places. Hence the failure of the import-substitution policy.

The next chapter (Chapter 3: 'Technological Collaborations, Partial Absorption and the Attempts to Improve Manufacture') comes back to the issue of technological collaboration. The inadequacies of our technology policies are once again pointed out. The focus on self-sufficiency, the restrictions on the foreign exchange, and the controls on who can collaborate with whom and for what have all contributed to the development of a restrictive outlook which encouraged the acquisition of 'know-how' and a near-total neglect of the 'know-why'. Moreover, there was no encouragement for the 'technology-barter' system; if the Indian industry also had some technologies to offer to others, the sharing from their side would have been greater and our learning would have been better.

The 'know-why' issue will have to be understood in the larger framework of the relationship between science and technology. This issue is discussed in Chapter 4 ('Lessons from Theory: The Changing Character of Technology, Innovation and Public Intervention'). The conversion of

scientific knowledge into technology is not automatic. The process has to be facilitated by the market conditions, current levels of technology, financing options and policy initiatives.

The next two chapters (5 and 6) are the last ones (before the concluding chapter) in the body of the book. These are respectively titled as: 'The Unexplored Sources of Competitive Advantage: Contests on the Indian Shopfloor' and 'Managing Production and Managing the Shopfloor', both dealing with the evolution of the shopfloor management system, including the issues of managing labour. The alienation of the workforce from the management of industry is apparently a major reason for low productivity and low innovativeness on the Indian shopfloor. But there are no concrete suggestions from the author on this. Besides, the reader fails to understand why there have to be two chapters on the same theme, except that they were written for two different occasions. They were not too big for combining. The two together are thirty-odd pages which is roughly the size of Chapter 1. The quotations in these two chapters (especially Chapter 6) provide interesting reading and give the reader a flavour of what was happening in the Indian industry once upon a time. But there is hardly any suggestion from the author about the way forward for Indian industry. The rear-view mirror in a vehicle is primarily to facilitate forward movement and occasionally to facilitate very limited backward movement; the latter too is for setting the right direction for forward movement. History should also serve the same purpose.

This book is a well-documented report on the technology, management and labour practices in Indian industry, particularly in the pre-independence era. Its major strengths are its authentic documentation and scholarly presentation. Its weakness, as mentioned above, is the lack of an integrating perspective supported by a strong, elaborate and logically compelling concluding chapter, providing guidelines for changing policies and practices based on the learnings derived from the historical analysis.

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MATHEW J. MANIMALA

Abstracts

Prepared by Sanjay Pal, Entrepreneurship Development Institute of India, Ahmedabad.

We publish, in this section, brief abstracts of significant papers appearing in other journals. Authors are requested to send copies of their papers, published elsewhere, for this purpose.

Izyumov, Alexei and Razumnova, Irina, 'Women Entrepreneurs in Russia: Learning to Survive the Market', *Journal of Developmental Entrepreneurship*, vol. 5, no. 1 (April 2000), pp. 1-19.

The explosion of unemployment and increase in economic discrimination against women in Russia since the start of market reforms have pushed many of them into the ranks of micro entrepreneurs. This paper surveys the status of women-owned businesses in Russia with an emphasis on the training needed for the successful transition from unemployment to entrepreneurship. Advantages for female entrepreneurs of home-based businesses, in particular Internet-mediated information services, are discussed.

There have been certain changes in the status and progress of female entrepreneurship in Russia since the collapse of the Soviet economic system in 1991. With Russia's transition from a planned to a market economy, the economic status of women in general has deteriorated significantly. Women have lost not only guaranteed employment but also the relative economic equality assured to them by the affirmative-action-type policies of the communist government. Between 1992 and 1999, unemployment among women grew faster than that among men, while women's incomes dropped. Left with little choice to support themselves and their families, millions of women have chosen micro entrepreneurship as their way of economic survival.

In the newly created private sector of the Russian economy, female entrepreneurs operate under conditions of adversity. Most of this adversity is not female specific, but is related to the small business sector situation in Russia in general. The factors of this adversity such as the prolonged macroeconomic crisis, domination of the economy by large monopolistic structures and high level of government corruption are in

fact characteristic problems faced by small entrepreneurs in many parts of the world. The uniqueness of the situation is that in Russia the women are on average better educated than men. But unlike female entrepreneurs, many of whom graduated from the school of the black-market economy, few women had any business experience before Russia's free market transition. Lack of basic business skills among aspiring women entrepreneurs, rather than direct gender discrimination, makes them the underprivileged players in the new Russian economy.

Consistent with the recommendations of the International Labour Organisation in 1998, the development of women's entrepreneurial education should be one of the priorities of the Russian government, but it is not. Given their average level of education and their tradition of high labour force participation, Russian women can contribute considerably more to the country's economic revival. Russian women unemployed by the shrinking state sector of the economy are willing and able to start their own businesses, provided they receive some basic training in entrepreneurship. A typical trainee in an entrepreneurship programme is a woman just under 40 years of age, with an engineering degree, formerly employed in the state sector of the economy and interested in entering such traditional small businesses as retail trade, public catering and small-scale manufacturing and crafts. The business subjects in which such aspiring entrepreneurs are most interested include the basics of entrepreneurship, business law, accounting and financial analysis.

Regarding the types and structure of entrepreneurial training programmes that would be particularly useful for a transition economy such as Russia, the present study suggests the need for a two-tier approach. The majority of the first-tier programmes should be aimed at basic entrepreneurial training with the goal of helping women to realise their business potential and overcome the fear of and/or misconceptions regarding the market. Expanding programmes for businesses with low start-up costs, such as direct marketing and home businesses, is particularly desirable. This is one of the most efficient ways of reducing unemployment and helping generate new goods and services at a reasonable cost. At the same time, entrepreneurial training for Russian women should not be limited to the traditional spheres of small business. Almost half of all Russian women and over 40 per cent of unemployed Russian women have a technical college or university degree, many in engineering and the sciences. With the rapid spread of personal computers and Internet use in Russia, these women are prime candidates to become owners of small

home-based information service businesses. Thus, the second tier of entrepreneurial training of Russian women should focus on the small high-tech businesses: computer-based data processing, accounting, design, etc.

Western countries providing economic assistance to Russia should expand programmes that focus on female entrepreneurs. Most of this aid should be directly given not to the central government, but to the local programmes such as business incubators and small business training centres that have proven their effectiveness. Providing these centres, especially in the provinces, with computer and communication equipments would directly enhance their reach and capabilities. Assisting Russian women to overcome the difficulties they face in the struggle to survive their country's transition from communism to a free market is one of the most productive ways of enabling Russia to build a viable market-based economy.

The discussion leaves several points for further research study. There is a need for research to measure the effectiveness of existing business programmes in terms of their impact on women's attitudes and perceptions, understanding, behaviour and on business outcomes. This should include a longitudinal survey of women-led businesses. More research is needed to facilitate the development of home-based businesses in Russia.

Yusuf, Attahir and Schindehutte, Minet, 'Exploring Entrepreneurship in a Declining Economy', *Journal of Developmental Entrepreneurship*, vol. 5, no. 1 (April 2000), pp. 41-56.

The paper explores entrepreneurship in a period of economic decline by identifying reasons for business start-ups under such conditions and examining whether the reasons were extrinsic in nature and entrepreneurial in origin. The effectiveness of formal enterprise support programmes and initiatives are also examined. The findings indicate that business start-ups were not motivated by extrinsic factors alone, even in adverse economic circumstances. As expected, it was also found that adverse conditions tend to produce more survivalist or 'mom and pop' types of ventures as opposed to innovative, growth-oriented firms. Enterprise support programmes and initiatives designed to support the small business sector as agents of economic recovery were found to be ineffective in this role.

The results of this study indicate the presence of a fundamental set of reasons for business start-ups under conditions of economic adversity,

with strong emphasis on extrinsically aligned motivators. Yet start-up reasons such as 'to control own life', 'to be my own boss', 'freedom to adapt personal approach to work' and 'attain family security' were found to play a prominent role. It appears that despite economic difficulties, entrepreneurs also seek to satisfy non-extrinsic desires. With the ongoing retrenchment in the civil service, the largest employer in Nigeria, in banking and manufacturing and in other areas, it is not surprising that entrepreneurs in Nigeria start business ventures for reasons of independence and control over one's own destiny. Additionally, entrepreneurs pursue intrinsic rewards such as achieving recognition and increasing their own status as well as the status of their families. However, there is no denying the importance of extrinsic factors.

The small enterprise initiatives and support initiated mainly by the government have had very little or perhaps no effect on addressing small business needs and contributing to the development of the sector. The finding that small firm performance was not influenced by the support services available reinforces this conclusion. However, the significant relationship between growth in employment and firms that receive support is a highly desired short-term consequence of economic development. Of great concern, however, is the lack of any impact on the overall performance of the firms, which does not bode well for sustainable economic development or for the ability of micro enterprises to develop into medium sized firms or entities demonstrating higher levels of entrepreneurial intensity. It was also found that for small business support programmes to have an impact, the support made available to the entrepreneur must be comprehensive. The finding that firms that receive both financial and non-financial support performed better than firms that receive only financial support, supports this conclusion. The notion therefore that providing small firms with financial resources will solve small business problems is short-sighted. Money must be packaged with other forms of assistance such as information for decision-making, assistance in the development of business plans, feasibility studies, consulting, technical support and management training and development. It is advisable therefore that banks, other lending institutions and support organisations should endeavour to enhance the quality of their advisory services to the small business sector especially with respect to financial and management aspects of day-to-day business operations. These organisations may want to establish specialised inputs to provide the framework and strategy necessary in designing delivery effective credit policies as well as programmes for attracting and enlightening members of the small business sector.

The conclusion that despite the attempts by government to support small firms in Nigeria, small firms have not been able to fully realise their potential because of the hostile environment borne by economic decline, seems to be premature. In particular, the study has not examined the organisational architecture and operations of the agencies charged with executing the support programmes and initiatives. It is further suggested that multiple support programmes and institutions in the country be streamlined to increase their visibility and relevance for the target markets. An umbrella organisation might be helpful in co-ordinating the activities of these programmes and institutions. The organisation may also be charged with ensuring compliance with statutory provisions and requirements and providing general publicity for the support programmes and agencies.

The findings of this study also reinforce the conclusion that entrepreneurship should not be measured solely in financial terms. Multiple measures and performance indices are important for capturing the entrepreneurial potential of the small business sector. At the same time, the absence of data covering the period of economic boom in Nigeria for comparative purposes suggests that replication of this research in other contexts is important for establishing the most salient outcome or performance measures. Relevant contexts might include an emerging wealthy economy, such as in the Middle East or one of the turnaround success stories in South America. Finally, in the light of the fact that the sampled firms are ones that survived the extremely difficult economic situation in Nigeria, only part of the picture is being revealed. Future research should investigate survival rates and reasons as well as the structures that have been successful in promoting small business development in the country being studied, and in declining economies in general.

Deeds, David L., DeCarolis, Dona and Coombs, Joseph, 'Dynamic Capabilities and New Product Development in High Technology Ventures: An Empirical Analysis of New Biotechnology Firms', *Journal of Business Venturing*, vol. 15, no. 3 (May 2000), pp. 211-29.

In industries populated by entrepreneurial high-technology firms, the rapid development of new products is viewed as a key determinant of success. Developing a portfolio of new products is necessary to gain early cashflows, external visibility and legitimacy, earlier market share, and increase the likelihood of survival. In addition, recent research has shown that new product development improves a firm's ability to raise money through an initial public offering.

This paper develops a model of new product development which is tested on a sample of ninety-four pharmaceutical biotechnology companies. Modelling the relationship between a firm's scientific capabilities and the development of new products poses significant obstacles particularly in the biotechnology industry. This is due to many factors, such as the uncertain nature of research and development, the relatively immature knowledge base, the rapid rate of change in the knowledge base, and the inherently complex and tacit nature of the scientific discovery process. Developing a competence in product development requires a significant commitment on the part of a new venture, but has a substantial pay-off. The results of the present study highlight several firm-specific characteristics which can enhance a new venture's product development capability: geographic location, quality of the scientific team and a CEO who has experience in managing product development.

There has been much theoretical discussion on the role of the geographic location in the research process. The present result provides empirical support for the contention that there are both benefits and costs to concentration. Firms which are located close to other firms in the same industry will reap benefits from the knowledge spillovers, specialised suppliers and labour pooling, but the results also indicate that there is a point at which competition for resources within a given geographic location interferes with a firm's ability to develop new products. Within each of the eight biotechnology clusters selected, there exist not only biotechnology firms but also major non-profit research institutions. The universities and non-profit research institutions provide basic scientific research upon which biotechnology firms build, experienced research and technical personnel, and specialised technical expertise unavailable elsewhere. In addition, these organisations attract skilled personnel to the geographic area which helps create and sustain a superior labour pool. Trying to discern the separate impact of each of these on our result is difficult, but it is also clear that geographic location makes an important contribution to the development of a firm's scientific capabilities. However, it also appears that too high a level of concentration can overtax the resources of a local environment and decrease the productivity of a firm's new product development process. Geographic location thus needs to be an important consideration for managers of research intensive firms.

The strong positive relationship between a firm's new product development and the number of times the members of the scientific team have been cited provides strong evidence that the capabilities of the individual

members of the firm's research team do translate into new products. Quality research is recognised and built upon by others in the scientific community. Citation analysis provides a means of objectively assessing the scientific community's evaluation of the research quality of the firm's team. The results indicate that the scientific community's judgement of the quality of the research team's output is as valid a proxy for the quality of the scientific capabilities of a commercial firm, as it is of the capabilities of an academic research institution. In an environment which requires rapid new product development for success, the results indicate that managers should incorporate the scientific community's reaction to the current and previous work of the members and potential members of the firm's scientific team into their evaluation of potential team members. Perhaps the most interesting results are those for our top management team and CEO. A CEO with prior experience in research and development (R&D) management is clearly beneficial to a biotechnology firm's productivity, but, in contrast, it appears that having too many Ph.Ds at the top may be detrimental to a firm's research productivity. The decline in research productivity may be due to misallocation of human capital. Simply by placing their research scientists on the top management team, the firms are wasting the time of these scientists on day-to-day management activities rather than allowing them to focus on the research. This explanation is constant with the R&D intensity findings, if one considers these research scientists' time as valuable expenditure away from R&D. In this light, focused expenditure on both monetary and human capital is critical to the development of the capabilities in a new venture.

Although the present results provide strong statistical support for the conclusion, one must acknowledge that the present focus on biotechnology raises questions about the generalisability of the study beyond this industry. Biotechnology has several unique characteristics including a long product development and approval cycle, heavy reliance upon often arcane basic scientific research and very expensive product development process. Basic science appears to be playing a more significant role in the success and failure of the individual firms. This trend will increase the importance of the scientific capabilities to a firm's new product development capability in all types of high-technology firms. In addition, geographic concentration is not unique to the biotechnology industry and there is no reason to believe that the benefits of geographic concentration are any different or any greater for biotechnology than for other industries.

The approach to measuring capabilities has important ramifications for future attempts to measure other types of capabilities. If capabilities are complex, assets based on a combination of routines, skills, organisational knowledge and tangible assets, there is a need to use multiple indicators to capture the capabilities. Single measures are destined to miss important aspects of the capability or capabilities of interest. In addition, knowledge of industrial context is crucial in developing the appropriate measure of firm-specific capabilities. Finally, important implications for entrepreneurs/managers of high-technology firms follow from the present results. First, entrepreneurs/managers need to view the choice of geographic location as an important strategic decision which will impact their firm's access to the skilled research personnel and the streams of knowledge upon which the firm will develop its specific dynamic capabilities. The result also seems to indicate that a choice location has a significant concentration of similar firms, but has not yet reached a point where higher competition for resources in the local environment upsets the advantages of the location. Second, as scientific knowledge plays an ever-more important role in a firm's success, the quality of the firm's scientific team is a critical ingredient in a firm's new product development process. But how does one evaluate the quality of a scientific personnel? The present results also indicate that there is a strong positive relationship between the impact—as measure by citations—of a team's prior research in the academic community and the productivity of that team in a commercial research laboratory. Therefore, the judgement of a scientific field, captured by citations or perhaps expert judgement, should prove to be a useful tool when evaluating personnel for a firm's research team. As expected, the prior experience of a CEO in managing a commercial facility enhances a firm's new product development capabilities. However, results for the top management team variable appear to indicate that the over reliance on technical personnel in the management of an organisation detracts from the product development process. Taken together, these results seem to imply that it is important that the leadership of the organisation has knowledge of and experience in managing the new product development process, but that focus in technical talent energies away from the laboratory and into the management of the organisation may be counter-productive. Therefore, what a high-technology venture appears to need is leadership which understands and has experience in the new product development process, but which keeps the scientific team focused on research and development.

Gudmundson, Don and Hartenian, Linda S., 'Workforce Diversity in Small Business: An Empirical Investigation', *Journal of Small Business Management*, vol. 38, no. 3 (July 2000), pp. 27-36.

While it would seem that hiring a diverse workforce would be advantageous to any firm that wants to compete globally, such diversity in fact entails costs as well as benefits for the small firm. This study explores the relationship between workforce diversity in small businesses and the small business owner/manager's motivation to diversify, the owner/manager's personal characteristics (ethnicity, age, education and gender) and the number of family members employed in the small business. Results suggest that the owner's minority status and the age were significant predictors of the firm's level of workforce diversity. The results also showed that the gender of the owner was a significant predictor of workforce diversity but not in the hypothesised direction: small businesses managed by men had more diverse workforces than did those managed by women.

Hiring people who will help the organisation succeed is increasingly important and yet it can be difficult to identify the right person from among many applicants. In the past, many business owners have sought a culturally and ethnically homogenous workforce. However, the effects of globalisation and the changing nature of the labour market may make such a strategy less advantageous than in the past. It is becoming more and more obvious that businesses must address issues related to the diversity of their workforces.

Proponents of workforce diversity assert that diversity offers an organisation a number of benefits. For example, it has been suggested that increasing the diversity of an organisation's workforce expands the breadth of perspectives and ideas available to the organisation in making decisions. This resource, if properly used, has the potential to improve the quality of decisions made in that organisation. Another potential benefit is that recruiting employees from a wider range of age and ethnicity gives the firm a larger talent pool in which to search, increasing the probability of acquiring higher skilled employees. Demographers have predicted that during the 1990s, people of colour, white women and immigrants will account for 85 per cent of new growth in the US labour force and that an older workforce is expected as the baby-boom generation ages. These trends will make it increasingly difficult for organisations of all sizes to acquire a traditionally homogenous workforce with the most advantageous skills. Further, it is

pointed out that more and more companies have been expanding their business operations internationally, and that businesses with a diverse workforce will have greater success in marketing to foreign and ethnic minority communities. A diverse workforce may enhance the adoptive capacity of a firm to compete in the global market-place. In addition, the external environment appears to be exerting increasing pressures on businesses to diversify their workforces.

There are certain difficulties inherent in recruiting, training and managing a diverse workforce. When employees with ethnic, cultural and political backgrounds different from the current workforce are hired, the firm is faced with the difficulty of integrating them without interpersonal conflicts. Even when adequately handled, the process is time-consuming and presents multiple opportunities for problems among employees which may result in poorer employee performance. There are important costs as well as benefits that the small firm incurs when it creates a diverse workforce. The relative importance of the various benefits and costs may depend on the characteristics of the particular small business.

An expectancy theory framework (L. Porter and E. Lawler, 1968, *Managerial Attitudes and Performance*, Homewood, IL: Irwin-Dorsey) suggests that the decision-makers' motivation to diversify is based on the probability that each of the perceived environmental threats to the undiversified firm will result in a loss to the firm, and the importance of each type of loss. The higher the probability of the perceived threats and the greater the perceived losses that result, the more motivated the owner/manager will be to diversify and the greater the resulting diversification. The study assumes that in small businesses, the owner is the primary decision-maker, exerting a major influence on the organisation's culture and controlling virtually all aspects of the organisation's strategy and operations. Among the strategies influenced are those of the human resources function. The owners' ethnicity, education and other characteristics are found to influence the owners' perception of the advantages of diversification, not only for the firm but for the society in general.

The ethnicity of the owner was found to have positive and significant relationships with the level of workforce diversity. Small businesses with a minority owner had a higher level of workforce diversity than businesses with non-minority owners. As suggested above, minority owners may be more sensitive to diversity issues resulting in the hiring of persons with diverse ethnic backgrounds. Also, the labour markets which surround the minority firms would be composed mainly of persons from minority backgrounds. Another competing explanation is that

minority owners are discriminating against non-minority individuals and try to hire employees with ethnic backgrounds similar to their own. The owners' age was also a significant predictor of workforce diversity. Businesses with younger owners tended to have more diverse workforces. As explained earlier, younger generations may have been more exposed to diversity issues in classrooms and work-related settings than their older peers. Although the owners' gender was also a significant predictor, it was in the opposite direction from what was hypothesised. The results suggest that small businesses owned by men were more likely to have a diverse workforce than were small businesses owned by women. There are several explanations for these results. Men owned two out of three of the larger firms. It may be that larger businesses by their very nature require more diverse employees. This could occur if, for example, larger firms are more likely to do business globally which makes a diverse workforce more advantageous. Thus gender may be a proxy for firm size. Also male and female business owners were found to have different goals for their businesses, with women being less growth and profit oriented and more oriented towards other goals. If we can assume that a large percentage of small business owners-managers believe suggestions in the popular press that having a diverse workforce will improve the profitability of a business, then it follows that the higher profit motive of male small business owners would drive them to pursue a diversification strategy more than it would female small business owner-managers.

While issues of workforce diversity have been with us almost since the founding of the United States, today's issues differ in that they must be addressed more frequently and at higher levels in the organisation. If there are indeed strategic advantages in hiring a diverse workforce, then it would seem reasonable to expect decision-makers in organisations to be motivated to do so. Future research must also determine the nature of the relationship between workforce diversity and firm performance.

Douglas, Evan J. and Shepherd, Dean A., 'Entrepreneurship as a Utility Maximising Response', *Journal of Business Venturing*, vol. 15, no. 3 (May 2000), pp. 231-51.

Research on entrepreneurship has investigated what entrepreneurs do, what happens when they act as entrepreneurs and why they act as entrepreneurs. This paper contributes to the later investigation and specifically asks why some people choose to be entrepreneurs, while others

choose to be employees. Responding to prior literature, recognising the lack of a coherent theory of entrepreneurship and calling for a rigorous examination of the decision to become entrepreneur, this paper presents an economic model of the career decision. It postulates that the individual chooses an entrepreneurial career-path or a career as an employee or some combination of the two, according to which career-path promises maximum utility.

It is assumed that the individual's ability from any particular occupation, whether self-employed or employed, depends on income as well as working conditions such as decision-making control, risk exposure, work effort required and other working conditions associated with that occupation. Individuals exhibit either preference or aversion towards each of the specified working conditions and it is the degree of that preference or aversion, in conjunction with the quantum of each working condition, which determines the total utility that the individual will derive from each particular occupation. It was found that all employees will have an incentive to be self-employed if they could assemble the same resources as their employer. Also, the greater their managerial and entrepreneurial ability, the greater will be their incentive to be self-employed, other things being equal. Next, it shows that a more positive attitude to work, i.e. a lesser aversion to work effort required, provides a greater incentive to be self-employed.

The individual's degree of risk aversion also influences the choice to be an entrepreneur. The more tolerant one is of risk bearing, the greater the incentive to be self-employed. Similarly, the greater the preference for independence or decision-making control, the greater the incentive to be self-employed. Finally, it is noted that perquisites and avoidance of irksome elements can potentially be controlled to a greater degree when self-employed, so the individual will consider the differences in these other working conditions when contemplating a career choice. But it is the sum of the utility and disutility from these sources which determines the career decision. Thus, it has been demonstrated that positive attitudes towards risk, work and independence are neither necessary nor sufficient conditions for a person to want to be an entrepreneur. Entrepreneurial abilities and attitudes are desirable in employment situations, therefore, an employer may choose to bribe an entrepreneurial individual to be an employee by offering more income and greater independence. The firms recruiting employees, venture capitalists considering funding an entrepreneur, should in their own best interests investigate the person's attitude toward income, risk, work and independence as

well as his abilities, as these attitudes underpin the person's worth as an employee and his incentive to be self-employed. Management educators should design programmes which enhance the entrepreneurial abilities and attitudes of individuals and the individuals themselves should consider their attitudinal make-up before competing for entrepreneurship.

Although one might expect intending entrepreneurs to be more likely to exhibit better abilities and more positive attitudes towards work, risk and independence than intending employees, it is the combination which is determining, not the presence or absence of any one positive attitude. Conversely, deeply negative attitudes in some of these dimensions or the coincidence of negative attitudes to both risk bearing and independence, are unlikely to be found among intending entrepreneurs, since this might create a deficit too large for the positive attitudes in the other dimensions to overcome.

It was found that the critical issues driving the decision to be an employee or to take the jump to self-employment, relate to incentive problems within the employment relationship. Entrepreneurial abilities and attitudes benefit all firms, whether large or small, therefore employers must design incentive contracts that consider the employees' utility across the five main elements considered in the present study if they are to attract and retain entrepreneurial employees. Empirical studies which attempt to characterise entrepreneurs in terms of their attitudes to work, risk and independence may expect to find relatively low explanatory and predictive power, unless they also measure the degree of the individual's preference or aversion in each of these dimensions. They should also attempt to measure the abilities of the individuals, since this will have a positive impact on the desirability of self-employment. Finally, the remuneration of the employee, including the bonus share and the degree of decision-making independence ceded to the individual in the employment situation, are each relevant issues in the choice whether or not to become entrepreneur. There remains much scope for future research. Researchers might attempt to design testing instruments that accurately measure the degree of preference or aversion for income, work, risk and independence. Given this, the intention of the individual to become either employed or self-employed might be predicted with greater accuracy. Apparent anomalies may be explained by inordinate degrees of preference in one or more dimensions despite negative attitudes to work, risk and independence.

Yeung, Henry Wai-chung, 'Limits to the Growth of Family Owned Business? The Case of Chinese Transnational Corporation from Hong Kong', *Family Business Review*, vol. 13, no. 1 (March 2000), pp. 55-70.

It has become conventional wisdom in management literature that family owned business is restricted by its management practices and therefore cannot grow beyond a certain size. In the case of Chinese family firms, these practices are related to paternalism, nepotism, personalism and fragmentation. This paper examines three detailed qualitative case studies of Chinese family firms from Hong Kong that have relentlessly pursued growth through internationalisation. It argues that venturing into foreign markets and traditional operations has become an effective means for Chinese family firms to expand beyond the limits of domestic markets and centripetal management structures. International business strategies enable Chinese family firms to socialise trusted members into the corporate 'family', provide a training ground for the future heir to the patriarch and consolidate networks of personal and business relationships. There are therefore no a priori reasons to support the alleged limits to the growth of Chinese family firms in their international context.

The literature on Chinese family firms argues that there are inherent limits to their growth. This limit is attributed to the presence of a paternalising fragmentation in the structure and management of Chinese family firms. The prospect of growing Chinese family firms into transnational corporations having operations in a number of countries is perceived as rather bleak. Through three qualitative case studies of Chinese family owned TNCs from Hong Kong, this paper tentatively found that such alleged inherent limits to the growth of Chinese family firms are less relevant when the firms venture into the region, and even global market-place. In fact, Chinese family firms can be rather dynamic in their organisational structures and management processes.

Through internationalisation, the Chinese family owned transnational corporations from Hong Kong (HKDNCs) accomplished the process of familisation—the preparation of future successors and the development of transnational networks of personal and business relationships. All of these mechanisms place the family firms in a good position to grow beyond the limits of that domestic economy and to become a transnational family firm. Therefore, there are no strong a priori reasons to assume that Chinese family firms cannot grow beyond a certain size or geographical confine. Such an assumption represents a static view of the

evolution of Chinese family firms and results in misleading stereotypes of these firms as stagnant, nepotistic and so on.

Of course, this does not mean that their internationalisation process is always smooth and profitable. Far from that, many Chinese family firms have undergone significant changes and transformations to enable the success of their internationalisation strategies. For example, Victor Li's Vancouver project attracted negative assessment of his property development strategies in the press. However, it is important to differentiate between strategy, for example, internationalisation, and the outcome of the strategy, for example, bad publicity to deconstruct the myth behind the inherent limits to the growth of family firms.

It is necessary to take a dynamic approach to the study of family firms. Wong's evolutionary model of Chinese family firms is an example of this approach, which examines these culturally specific firms in their changing social and institutional contexts. The increasing professionalisation of management in family firms can be an important source of potential conflict between family oriented members and others driven by modern management. Although the upheaval towards the fragmentation of families and their businesses may appear inevitable as they grow beyond a certain size, the process may be beneficial to the new rounds of capital accumulation and organisational innovation among different disparate units of former family firms. Family members continue to exercise control in these firms, although more competent professional managers are being socialised into these family firms and over time become insiders. For example, most of the big Chinese family businesses today are stacked with professional managers.

The restructuring and reorganisation of traditional family firms in response to new business and management challenges, therefore, ensure that family firms have a steady flow of professional and competent human resources, thereby prolonging their longevity beyond three generations. It also allows the continual dynamism and competitiveness of their societies in the global economy. In this sense, the structural and management characteristics of family firms should be seen as opportunities for, rather than limits to, growth.

Our underdeveloped understanding of the international operations of family firms is unsatisfactory when compared to the depth of our knowledge about the emergence of the global corporations from many advanced industrialised countries. Many interesting questions can be asked in this respect. Can the domestic competitive advantage of family firms be transferred to other locations? What is the impact of internationalisation

on the nature of control and co-ordination in family firms? Can these firms adapt to the challenges of globalisation and do they possess sufficient firm specific advantages to compete in the regional and global market-place?

Globalisation can also pose a serious challenge to family business when competition becomes increasingly global. The recent 1997–98 Asian economic crisis demonstrated the powerful effects of the growing interdependence of the global economy. Economic globalisation offers both opportunities and threats to Chinese business in Southeast Asia.

In the case of Malaysia's recent relaxation of its 27-year-old 'Bumiputra' equity ownership restrictions, it seems that globalisation is a highly contested process through which there is a continuous tug-of-war between nation-states and broader regional and global forces. Through its recent move to allow 'non-bumiputra', the Malaysian government is actively counteracting the impact of the regional economic crisis by attracting much-needed capital from within and outside Malaysia. Some Chinese business firms, which emerged relatively unscathed from the crisis in Malaysia, have become the beneficiaries of the economic melt down driven by globalisation. It must therefore be noted that economic globalisation does not necessarily put Chinese capitalism under siege. Rather the challenges posed by globalisation, with its inherent limits and opportunities, can be more effectively met by the dynamic transformation in any business system.

Adeoti, John Olatunji, 'Small Enterprise Promotion and Sustainable Development: An Attempt at Integration', *Journal of Developmental Entrepreneurship*, vol. 5, no. 1 (April 2000), pp. 57–71.

The 1990s witnessed strong advocacy for environmentally sustainable behaviour of economic agents. However, this very important aspect of economic development has been grossly neglected in the promotional strategies of small-scale enterprises in developing countries. This paper identifies small-scale enterprise promotional strategies in developing countries to include programmes for employment generation, entrepreneurship development, skills acquisition and training; and offers suggestions on how they could be integrated into a framework for environmentally sustainable development in developing countries.

The development of small-scale enterprises (SMEs) represents an important objective in contemporary free market economic strategies. The reason for this is closely tied to the apparent social benefits attending

to investments in this area, particularly in terms of employment generation possibilities. While SMEs have long been integrated into the development framework of the industrial capitalist economies, it took the rigors and pains of economic structural adjustments for many developing countries, especially in sub-Saharan Africa, to realise the crucial role that SMEs could play in establishing the appropriate technological and entrepreneurial environment necessary for development.

A small enterprise in a developing economy includes well-established small-scale enterprises (SSEs) operating under the unregulated economic conditions of the informal sector, as well as the relatively modern SSEs established and managed by comparatively well-educated entrepreneurs who understand the intricacies of the formal economy. This latter group could operate between two worlds: on the one hand, they might have forward and backward linkages with the large enterprises of the formal sector, on the other hand, they may have similar relationships, although in a much less quantifiable manner, with the micro enterprises of the informal sector.

Since the release of the Bruntland Commission Report (1987), the subject of sustainable development has become a major focus in virtually every area of human development. Economic activities are no longer considered purely on the basis of the rate or value of returns to investments. The externalities that derive from virtually every activity have become equally important in evaluating inputs, outputs and the processes involved with economic enterprise. Although sustainability could be viewed from many perspectives, the concern of this paper concentrates on environmental sustainability, perhaps the most emphasised issue in work on sustainability. In spite of the importance attached to environmental sustainability, it has largely been neglected in efforts to promote SSEs in developing countries. The paper attempts to integrate SSE promotional strategies into the framework for environmental sustainable development. The main elements of environmental sustainable development can be integrated into the SSE promotional strategies, with technology playing an appropriate role depending on the type and scope of promotional strategy. Under such a framework, the SSE promotion programmes generate environmentally sustainable SSEs as outputs.

It must also be kept in mind that, in developing countries, the trade-off between the private and social costs of environmentally sustainable SSE development may not be limited to the direct consequence of the behaviours of SSEs. Cost tradeoffs are indirectly affected by the support programmes themselves, including government sponsored SSE

support programmes, projects through local development agencies such as development banks, research institutions, community development agencies and the activities of international development agencies. Development institutions, particularly those that give financial support to SSEs, are more interested in financial returns on their investments. The understanding of these returns are based only on the financial quantification of the private and social returns to investments. Hence it is difficult, if not impossible, for support programmes under such a system to make environmental consideration an important yardstick for choosing projects for support. In this regard, public policy initiatives will be required to influence decisions of such development agencies. Moreover, since institutional support that involves financial assistance to SSE projects in developing countries often comes from local public funding or international development agencies, the required policy preference for environmentally sustainable SSE projects would necessarily encompass policy adjustments in these development institutions.

Finally this attempt at integrating environmental sustainability into the framework for SSE promotion in developing countries is an exploration that requires further development. It is acknowledged that the issues involved may be far more intricate than revealed in this discourse. Considering the overwhelming influence of poverty in developing countries, environmental sustainability, particularly for SSE does not stand a good chance of getting the priority it deserves in economic development. Besides, the present state of environmental proclivity in developing countries is comparatively low. But it is reasonable to assume that such a situation will not persist indefinitely. That the maintenance of environmentally sustainable regime of SSE development in developing countries must come to an end some day and that this day may be closer than many recognise, if it is not already upon us, is the conclusion of this paper. Thus, apart from the potentials of improving the quality of economic development in developing countries, the greening of SSE promotion poses a new challenge for the intellectual faculties.

Moore, Ken and Mula, Joseph, 'The Salience of Market, Bureaucratic and Clan Controls in the Management of Family Firm Transitions: Some Tentative Australian Evidence', *Family Business Review*, vol. XIII, no. 2 (June 2000), pp. 91-106.

Despite the numerical and economic significance of family businesses in Australia, they are not extensively researched. This paper reports

some of the results from a nationwide study of Australian family owned businesses that sought to ascertain and understand their management and control practices. In particular, the paper assesses the organisational transition of Australian family firms in terms of their dominant control practices. These control measures are evaluated according to Ouchi's classification of market, bureaucratic and clan controls. The salience of these different forms of control serves to identify distinctive patterns that define periods of organisational passage (lifecycles).

All organisations change over time. Some make these changes rapidly in revolutionary modes whereas others bring about change through evolutionary modes. These changes manifest in different organisational strategies, structures or processes and have been referred to as transitions. Such transitions often occur in response to external demands or opportunities such as changes in the economy, competitor behaviour and capital or labour markets or government regulations. Changes in the internal state of a firm also prompt transitions. As an organisation moves from start-up to steady state or enters a period of growth or retrenchment, significant alterations may be required in the aspirations of the firm or in its internal structures and systems.

The theoretical origin of the study of corporate transitions lies in the work on organisational lifecycles. The lifecycle theory implies that organisations go through stages that follow predictable patterns. To make these transitional changes successfully requires careful management that knows the underlying dynamics of the system. Part of that management includes the use of appropriate internal structures and systems to exercise control. But there are various ways in which management can seek to control these organisational stages and transitions, ranging from informal mechanisms to highly sophisticated formal systems. These stages of development, punctuated by organisational transitions, also apply to family owned and operated companies. Family firms are equally subject to external and internal forces that initiate these organisational transitions and such forces must be managed and controlled to ensure the survival and success of the family firm.

The purpose of this paper is to ascertain and understand the management and control practices of Australian family owned firms. In particular, it explores whether there is a dominance of particular control strategies that coincide with the various stages of family firms' development. In this way, the paper isolates those controls that facilitate the development of family firms by successful management of key organisational transitions. An organisation progresses through four stages in

its lifecycle: entrepreneurial stage (stage 1), collectivity stage (stage 2), formalisation and control stage (stage 3), and elaboration of structure and adaptation stage (stage 4). The results suggest that family firms use different control mechanisms at each stage of the development lifecycle and there is a dominant form of control for each stage. Firms at the collectivity stage prefer clan based controls, those at the formalisation and control stage adopt bureaucratic controls and elaboration of structures and adoption stage firms prefer market-based control mechanisms.

Family firms provide stability over generations and as such are conducive to the use of clan controls. However, the changes that accompany transitions that see firms move between stages of development threaten the efficacy of clan controls. Consequently it is proposed that collective stage firms prefer clan controls more than firms in other stages. Based on the operational measures used, Australian family firms at stage 2 prefer clan controls ahead of those at stages 3 and 4. Whereas bureaucratic controls are preferred by formalisation and control stage 3 firms, they seem to be employed at similar levels of intensity by elaboration of structure and adaptation stage family firms. Based on the collective set of measures used, it could be argued that bureaucratic controls are the preferred choice of stage 4 firms. However stage 3 firms more extensively used the key operational measures of bureaucratic controls identified by W.G. Ouchi (1979, 'A Conceptual Framework for the Design of Organizational Control Mechanisms', *Management Science*, September, pp. 833-48) particularly explicit output measures such as standards and inventories, than did those at stage 4. Most other measures that this study used for bureaucratic controls are surrogates for mechanisms identified by Ouchi. To reinforce the conclusion that only firms at the formalisation and control stage prefer bureaucratic controls requires validation of operational measures. Although the present analysis may be indecisive as to the ranking of bureaucratic controls between stages 3 and 4, it shows that stage 2 firms would be ranked third.

Evidence from the analysis on the use of market controls appears to support the proposition and the ranking suggested across stages. In two of the three operational measures, firms at the elaboration structure and adaptation stage displayed a significantly higher level of intensity of use of market-based controls than did firms at the other stages. The most important market control measure that Ouchi mentions is the use of profit centres. Adopting this measure alone would confirm the present proposition. The use of the internal rate of return (IRR) technique as a surrogate for investment centres provides a less convincing result.

However, this measure is questionable because managers undertaking evaluations of capital investment decisions in other than investment centres structures could use the technique. But on balance, it would appear that firms at stage 4 adopt market control mechanisms ahead of firms in stage 3, which in turn use these controls more intensively than firms in stage 2.

The focus of this paper is to determine whether there are salient controls for each stage of the development lifecycle. The results support the general proposition of the dominance of a particular control strategy that coincides with each stage of development. There is also some evidence to suggest that the relative importance of market, bureaucratic and clan controls between stages are ranked in accordance with the propositions of this paper. That is, clan controls are used first by stage 2 firms followed by stage 3 and then stage 4 family firms. Bureaucratic controls are the dominant control mechanism of stage 3 firms and they are used in decreasing intensity by stage 4 firms and stage 2 firms. The major form of control of stage 4 firms is market based. Stage 3 family firms adopt this form of control to some extent followed by stage 2 firms.

A major limitation of this exploratory analysis is the reliability and validity of the operational measures used for the control constructs. Further analysis is also necessary to see whether there are significant differences in the control forms within stages of development. Australian family firms, like family businesses anywhere in the world, face organisational transitions. Both internal and external forces initiate these transitions. Some of these forces are associated with the firm's stage of development and appropriate control mechanisms are needed if the business is to survive and grow. Although the study is exploratory it contributes to an understanding of the management and control practices that facilitate the development of Australian family businesses through their various organisational passages.

Davis, Peter S. and Harveston, Paula D., 'Internationalisation and Organisational Growth: The Impact of Internet Use and Technology Involvement among Entrepreneur-led Family Businesses', *Family Business Review*, vol. XIII, no. 2 (June 2000), pp. 107-20.

For many years large, multinational corporations were thought to dominate international business. It was recently recognised that a number of entrepreneurial and family firms are active in the international arena. Using

data from a United States survey of entrepreneur-led family businesses, this paper examines the extent to which certain entrepreneurial characteristics, internet usage and investments in information technology influence internationalisation and organisational growth among such firms. The results of regression analysis identify variables leading to success in the emerging global economy and their differential impact on these performance outcomes.

The purpose of the study was to investigate the relationship of entrepreneur's characteristics such as age, education and firm level factors like internet usage, investment in technology to internationalisation and sales growth in entrepreneur-led family businesses. Although the research methodology allows only for demonstration of a relationship, the findings revealed support the underlying thesis of this research: that among entrepreneur-led family businesses, internationalisation and growth are positively affected by increased use of the internet and increased investments in information technology.

In addition, characteristics of the entrepreneur-owner, in particular his or her age and level of formal education were also found to have a significant relationship to internationalisation and sales growth. The effect of ageing by the entrepreneur on a family business appears to suppress sales growth. In contrast, a higher educational attainment by the entrepreneur had a positive effect on both internationalisation and sales growth. Importantly the results were significant even in the presence of a significant effect for the controlled variable—organisational size. By demonstrating the presence of a significant statistical relationship between internal factors and internationalisation and growth, the present study provides the basis for a more complex understanding of the workings of entrepreneur-led family businesses.

The study has implications for both researchers and practitioners. On the research side, the investigation of conditions and factors that facilitate and influence growth and internationalisation of entrepreneurial ventures and of large, multinational firms has been an important theme in the literature in recent years. Whereas this literature has examined a variety of largely external factors that are likely to impact internationalisation and growth, it does not provide a compelling explanation for internationalisation and growth among entrepreneur-led family firms. Indeed, recent literature (M.A. Gallo and C.G. Pont, 1996, 'Important Factors in Family Business Internationalization', *Family Business Review*, Vol. 9, No. 1, pp. 45–60) suggests that internal factors provide a better explanation than external ones for explaining internationalisation

among family firms. Although the results of the present study do not compare external and internal factors, they support the notion that factors internal to the entrepreneur-led family firms serve to explain at least a portion of their internationalisation and sales growth. Therefore, a concrete explanation of adopting a strategy of international expansion in the family business context must include entrepreneur characteristics and firm level factors.

The finding that sales growth was explained by a somewhat broader set of entrepreneur and firm level factors than those that explain internationalisation of entrepreneur led family business may be important. Much of the previous research on growth fails to explain internationalisation that is based on different factors from those proposed to explain domestic expansion. Contrary to expectations, it was found that the older the owner-founder, the internationalisation was evident, although the effect size was small and only marginally significant. Perhaps the explanation for this unanticipated finding is that the entrepreneur-owners of family business initiate their internationalisation process later in their personal or businesses' lifecycle and so, it reflects the accumulation of individual and/or organisational experience and expertise. On the other hand, it simply may be that internationalising is undertaken as an opportunistic response to the necessity to provide work for succeeding generations, which of course would be more proximate among older entrepreneurs.

The study found that although certain entrepreneur characteristics may significantly reduce organisational sales growth, they can have a slightly positive, although not significant, effect on the firms' drive to internationalise. Perhaps as the architect of the past strategy ages, he or she becomes more and more inflexible, potentially stifling growth and forcing the family firm to look overseas for sales opportunities. In such a case, an aging leader may adversely affect the ability of the family firm to compete in its local markets, driving it into overseas markets. This latter interpretation of the finding is consistent with those by Gallow and Pont, that family businesses where local leaders devote themselves more to the local market, whereas the non-leaders, perhaps slower growing firms, orient themselves towards international markets. On the other hand, having a more educated entrepreneur at the helm was observed to be beneficial for family firms, positively influencing both sales growth and the firms' ability to penetrate international markets to a greater extent.

In addition, the study suggests that more attention be paid to the application of Internet technology as well as to the pattern of investments in

information technology to explain international expansion and growth among entrepreneur-led family businesses. The continued globalisation of the world economy suggests that researchers and practitioners need to develop a greater understanding of the role of technology in expanding overseas and maintaining healthy growth. Clearly the current study affirms the importance of the Internet among family businesses engaged in international commerce. The Internet variable is found to have the strongest effect in determining the extent of internationalisation, outweighing even the effect of organisational size which was included as a control variable. Although the Internet variable also positively influenced sales growth, its effects were observed to be less than half than those shown for internationalisation.

Although the positive effects of Internet usage were evident for both internationalisation and sales growth, the same was not true for entrepreneur-led family firms' investments in information technology. It was found that future investments in information technology appear to be associated with sales growth, but it did not affect the ability to penetrate foreign markets effectively. Perhaps this finding is not so surprising—incurring the costs of investments in additional information technology, possibly attendant to family firm's usage of the Internet, may erode the current cost advantage such firms have over their overseas domestic rivals. Additionally it has been shown that geographic, cultural and linguistic differences raise communication and information costs. Consequently the beneficial effects of investments in information technology may be more evident in the domestic markets than in the overseas markets, whereby internationalisation would benefit.

Coleman, Susan, 'Access to Capital and Terms of Credit: A Comparison of Men and Women Owned Small Businesses', *Journal of Small Business Management*, vol. 38, no. 3 (July 2000); pp. 37–52.

This article compares access to capital for men and women owned small businesses using data from the 1993 National Survey of Small Business Finances in the United States. Findings reveal that women owned firms are less likely to use external financing as a source of capital. It does not appear, however, that lenders discriminate against women on the basis of gender in terms of access to capital. The second part of the study examines the terms under which women obtain credit to determine whether they are at a relative disadvantage from that perspective. Findings also reveal that women owned firms paid higher interest rates than men for

their most recent loans. In addition women owned service firms were more likely to put up collateral than men owned service firms.

Small businesses are an important source of economic growth and job creation. According to the US Small Business Administration there were over twenty-two million small businesses in 1994 employing 53 per cent of the workforce. Small firms account for 50 per cent of the Gross Domestic Product and the majority of the new jobs created. In terms of innovation, it is estimated that small firms produce twice as many product innovations per employee as large firms, creating new products, services, lines of business and industries.

Access to capital is a critical issue for small businesses. Without sufficient capital, small firms are unable to develop new products and services or grow to meet demand. Insufficient liquidity is a frequently cited cause of small business failure. Unlike larger publicly held firms, small firms typically cannot access the traditional capital markets. Instead, small firms are heavily dependent on bank loans, trade credit and informal source of financing such as personal savings, credit cards, home equity loans and loans from family and friends.

Small businesses owned by women represent an increasingly important part of the small business sector. The National Women's Business Council estimates that women owned businesses represent one-third of all businesses and that the number of women owned firms is growing twice as fast as firms in total. The same study estimates that women owned businesses employ almost six million people and are adding jobs much more rapidly than firms on average. A number of researchers have found that acquiring capital and dealing with financial institutions is particularly difficult for women business owners. Reasons cited include the small size of most women owned firms, lack of financial sophistication, risk aversion and possible discrimination.

The study compared men and women owned businesses in terms of their usage of various external credit products and it identified firm characteristics or variables including gender, that predict the likelihood of a firm using these same external credit products. Finally it examined terms of credit, including interest rate and collateral requirements, to determine whether lending conditions imposed on women business owners are more stringent than those imposed on men.

The findings of the study reveal that women owned businesses are significantly smaller and newer than those owned by men. In addition they are less likely to use external financing as a source of capital. It does not appear, however, that lenders discriminate against women on the

basis of gender in giving them access to capital. Rather, it appears that lenders discriminate on the basis of firm size preferring to lend to larger and more established firms. This preference may put women owned firms at a disadvantage given that they are half the size of men owned firms on average. The findings of this study also suggest that with size and firm age held constant, women owned firms have the same access to the most frequently used credit products as men. This confirms the prior work done by Fabowale et al. (L. Fabowale, Barbara Orser and Allan Riding, 1995, 'Gender, Structural Factors and Credit Terms between Canadian Small Businesses and Financial Institutions', *Entrepreneurship Theory and Practice*, Vol. 19, No. 4, pp. 41-65) using a large sample of Canadian firms.

The study examined the terms under which women obtained credit to determine whether they are at a relative disadvantage. It was found that higher interest rates are associated with smaller loans and female borrowers and that women owned service firms have higher collateral requirements than men owned service firms. Taken together these findings suggest that women obtain credit under less favourable terms than men. Differences between the banking systems in Canada and the United States may possibly account for some of the discrepancies between these findings and those of Fabowale, Orser and Riding (1995). In addition, a possible weakness of these findings is that gender may be highly correlated with some of other variable affecting interest rates and collateral requirements. If that is the case, gender may be significant only because of its correlation with an important variable that has not been specified.

Length of relationship with the financial institution does appear to affect the terms of credit. Shorter relationships were associated with higher interest rates and women business owners have shorter relationships with their primary financial institutions than do men. This suggests a possible strategy for women business owners who tend to have smaller companies and smaller loans—developing relationships with a primary financial institution may help them to offset their size disadvantage and the problems of asymmetric information to obtain more favourable lending terms.

These results also show that collateral was associated with loans to smaller firms, unincorporated firms and women owned firms in service businesses. Many women owned firms fall into all three of these categories, suggesting that women who want loans from financial institutions need to be prepared to provide some type of collateral to counteract

the perceived riskiness of their firms. If their businesses do not have sufficient assets they need to come to terms with their own willingness to pledge personal assets and accept the risk entailed in doing so. By separating the issue of access to credit from terms of credit, the study demonstrates that although women owned firms have comparable access to credit, they do not obtain it on the same terms as do men owned firms. The difference may affect their willingness to seek out external credit as well as their perceptions of its availability.

Of related interest

PATTERNS OF WORK CULTURE

Cases and Strategies for Culture Building

JAI B.P. SINHA

In an increasingly competitive and globalized business environment, organizational effectiveness depends heavily on the commitment and involvement of employees, and the centrality of work in their lives. Organizations which care for the well-being of their employees and proactively draw on societal resources are able to cultivate such a work culture in their employees. The work culture of an organization, in effect, constitutes a subset of the larger societal culture. As a consequence, the values, beliefs and assumptions prevalent in a particular cultural milieu determine to a large extent the pattern of work culture likely to prevail in an organization located in that milieu.

In this book, Jai B.P. Sinha continues his exploration of an area of research that has come to be closely associated with him—work culture in formal organizations. This study stands apart from his earlier work because it focuses on medium-size enterprises on which there is scant literature. Twenty-eight enterprises drawn from both the public and private sectors in Bihar were chosen for the study. They encompass a wide variety of industry, ranging from light engineering and chemicals to ice-cream makers and distilleries.

In his investigation of smaller organizations reported here, the author found a culture of *amoral work-centrism*, in which work remained central, but where this centrality was based on selfish orientations devoid of any concern for others—a culture that was not helpful to the employers or the employees.

The author therefore outlines an alternative strategy to build what he calls *work-centric nurturant organizations*, characterized by an ethos of welfare combined with work orientation. Such a culture will encourage a familial ethos and the nurturance of employees combined with a strong work orientation which would enable the development of human resources while simultaneously ensuring high levels of productivity and efficiency.

Providing valuable insights into the work ethos and the organizational milieu of enterprises, this accessible and lucid book will attract a wide readership in the areas of organizational behaviour, social psychology, management and human resources development while being of equal interest to practising managers and entrepreneurs.

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Management Strategies of Venture Capital Funded Firms

K. RAMACHANDRAN

Most studies on venture capital have focused on the strategies and criteria followed by venture capitalists (VCs), and there have been only a few efforts made to study high-technology firms funded by VCs. This article reports the findings from a study of the strategies of venture capital supported firms particularly in areas such as technology, people, marketing, finance and organisational growth. It is concluded that in the case of technology intensive firms, their strategies are naturally driven by technology, but along with this, it is their appreciation for and application of the other functional strategies that makes them winners. The result is the creation of a unique supply of complex resources within each organisation. Many of the entrepreneurs have been able to create and sustain market pull for their products because of the synergistic effect of their resources and strategies

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Introduction

Venture capital funded companies are somewhat different from the general pool of business in terms of entrepreneurial background, nature of technology, funding pattern, risk involved and managerial challenges. Such firms tend to track untrodden territories using high technology as the key variable. Their success obviously depends on their ability to manage functions other than technology also, particularly when the competitive scenario changes rapidly. That also means that acceptance of any technological innovation depends on customer acceptance of the output.¹ Traditionally, venture capitalists (VCs) provide useful managerial inputs to high-tech firms they have invested in. However, in a developing country such as India, the situation seems to be different for supply related reasons both in terms of high technology and VCs, the latter being more nascent than the former. It is in this context that an exploratory research was undertaken to understand the

management strategies followed by venture capital supported high-tech firms in India.

One of the key factors of success of high-tech firms is their ability to respond to competency-destroying technological changes. Cohen and Levinthal found that it depended on their 'absorptive capacity' of changes.² It is also established that a firm's technological capabilities determine its ability to formulate the right technology linked strategies.³ However, such capabilities alone may not be good enough for a firm's success. There have to be strong linkages between strategy and technology whether their linkages with the firm's performance are completely established or not.⁴ These evidences are mostly from advanced economies and not necessarily in the context of venture capital supported small and medium high-tech firms. Small and medium enterprises, which are found to play a key role in the economies of most countries also account for large number of high-tech firms.⁵ Earlier studies on small and medium high-tech firms, many of which are venture capital supported have largely focused on areas such as product development,⁶ marketing⁷ and overall performance.⁸ Several authors have written on the role of high-tech firms in economic development.⁹ Some authors have focused their attention on the role of social networking to raise resources.¹⁰

There has hardly been any study on the process and strategies of management applied by companies supported by VCs particularly in the Indian context. Such a study is quite relevant for a developing country such as India where VCs are attracting considerable attention these days, thanks to their contribution to the development of entrepreneurship. The Indian venture capital industry has witnessed two clear phases: one, the rise of largely non-Internet based firms and two, the emergence of Internet based firms. This study focuses on non-Internet firms. This article discusses the findings from a study conducted to understand the management strategies followed by companies supported by the largest VC in India.

Methodology

Since decision rules, otherwise called heuristics, reflect the policy orientation of individuals,¹¹ it was decided to identify the heuristics followed by venture capital funded entrepreneurs while taking strategic decisions. It was decided to take high-tech entrepreneurs as surrogate to VC funded entrepreneurs because of their close overlaps. To start with, twenty-five case studies based on high-tech enterprises that were

published in the *Business India* journal over a five-year period were analysed which brought out ninety-seven general management heuristics. The criteria applied to identify high-tech firms were: they should either have used complex technology or they must be in new industries where technology is yet to be stabilised. Some of them were actually supported by VCs. We used our judgement to select or reject any particular case based on careful examination of each of them. Some of the heuristics, which conveyed similar meanings, were clubbed. Finally, we obtained sixty heuristics. We asked two academics to identify the presence or absence of these heuristics in each of the cases and rate them on a four-point scale. The inter-rater reliability was found to be as high as 100 per cent for the presence or absence of a heuristics in a case, and 97 per cent for the rating given on the scale. A questionnaire for the primary survey was subsequently developed to rate these heuristics on a four-point scale (1 for 'not at all like me' and 4 for 'exactly like me'). Respondents were asked to read each of the heuristics (e.g., enter attractive niches and dominate) and indicate the extent to which they reflected their decisions or beliefs. Since these heuristics are valid independent of time, the fact that the cases belonged to an earlier period did not matter.

The next challenge was to identify VC funded companies. The ICICI Venture (formerly Technology Development and Information Company of India Limited) is the oldest and largest venture capital company in India particularly in the non-Internet economy. We could generate a list of 200 firms from them, which fulfilled the criteria of high technology specified earlier. The questionnaire was mailed to 190 of them; a reminder followed the initial letter after a month and we received thirty-six completed forms back. In order to get a deeper understanding, we interviewed another ten entrepreneurs extensively and prepared caselets on them besides collecting responses to the questionnaire. Thus, altogether we have forty-six responses from venture capital supported entrepreneurs.

While eight of the forty-six firms had an annual turnover of less than Rs 10 million, twelve firms had a turnover in the range of Rs 10–30 million in 1993–94. Interestingly, there are eleven firms in the Rs 30–70 million range, and ten in the over Rs 70 million range. This indicates that most of the firms studied here are not very small firms. Even in terms of employees, while twenty-six firms have employed less than 100 people, there are fifteen with employees ranging from 100 to 300, and six employing over 300 people. Most of the firms were set up in the 1980s. One entrepreneur did not respond to this question. While

there are five firms which were started before the 1980s, thirteen were started during 1980–85, fourteen during 1985–90 and the remaining fourteen after 1990. In other words, a majority of them are less than a decade old.

Findings

It is natural for most venture capital entrepreneurs to have a strong technology background primarily because VCs traditionally have funded only high technology firms. This assumption cannot be automatically extended to their qualifications in management. Therefore it will be interesting to find out the principles these entrepreneurs follow in managing their business for survival and growth. The analysis that follows will also attempt to see whether there is any pattern of management which will be characteristic of such technology-oriented firms. The following discussion summarises the findings from the analysis of the forty-six responses (thirty-six questionnaires and ten caselets).

Technology – Product – Market Choice

It is natural to expect such entrepreneurs to choose their technology carefully especially when their start up resources are primarily technical knowledge and personal contact network and not finance.¹² Most of them chose their product and technology in the same area in which they already had received exposure by way of training or earlier working. They can be categorised as traditionalists. Some others were more radical who used their background to explore new avenues in emerging areas especially in the context of the Indian market. By and large the technology absorption process was also smooth for most of them whether they were traditionalists or radicals.

The questionnaire survey of thirty-six firms indicated that these entrepreneurs believed in the use of state of the art technology to ensure quality and reliability of their products. On a four-point scale, this orientation had a mean score of 3.58 with a standard deviation of 0.70 (see Table 1). On three other technology-related heuristics also these entrepreneurs scored very high as shown in the same table. They believe in investing in technology through their own R&D and/or by keeping abreast with the latest technological developments as they can be used to leverage growth in the organisation. They believe in the use of technology to differentiate products so as to add value to the customer. In other words, technology is the natural lever which they use to build a market and develop their overall growth strategy.

TABLE 1
Technology Orientation

<i>Heuristics</i>	<i>Mean</i>	<i>S.D</i>	<i>Skewness</i>
Invest in technology for growth	3.46	0.81	-1.48
Technology for product differentiation	3.31	1.12	-2.01
Latest technology for qty/reliability	3.58	0.70	-1.34
R&D to develop new ideas	3.31	0.97	-1.72

People Orientation

Independent of the size and nature of technology used it was found that most entrepreneurs did not have hierarchical organisations. In fact, companies, especially in the information technology industry, which employs hundreds of people, have given tremendous flexibility to their staff even in terms of working hours. An analysis of the heuristics in Table 2 shows this clearly. They believe in teamwork, and delegate authority and responsibility to their colleagues substantially. They invest in people through training and welfare schemes, and offer share ownership to facilitate recruitment and retention of good quality people. In short, these entrepreneurs have realised the importance of both technology and people of high quality in the success of their business. Since their cutting edge is technology, they invest in it and also in the people who help them sustain it; it is imperative that they believe in the contribution of people and treat them as assets to achieve growth. Also, some of the employees who were interacted with during data collection said that there are considerations other than money such as their desire to work with cutting edge technology that influence their choice of organisations to work for.

TABLE 2
People Orientation

<i>Heuristics</i>	<i>Mean</i>	<i>S D</i>	<i>Skewness</i>
Build strength through teamwork	3.81	0.49	-2.52
Delegate, decentralise	3.73	0.60	-2.06
Innovatively solve labour problems	2.65	1.23	-1.02
Invest in people	3.39	0.94	-2.01
Recruit professionals	3.42	0.99	-1.95
Innovative schemes to retain people	3.31	1.12	-2.01

It may be noted that the heuristic on the labour problem is rated low. A close analysis of the case histories prepared as part of this study showed that except in one case, there was no instance of any industrial relations problem in any of them. As a result, there might have been no need for innovations in it. The high rating of the other heuristics in the same table discounts possibilities of labour problems in these companies. It may also be a reflection of their appreciation of the value of a human being particularly in a high-tech environment where most employees are skilled. It is quite possible that their technology orientation may even be discounting their money orientation (make money somehow) because of which they tend to treat people better. Another hypothesis is that their non-commercial (especially 'non-family business') background has given them exposure to what it is like working for others, and influenced their employee strategies. Also, the heuristics may be reflecting their inclination to solve labour problems innovatively if required (note that the standard deviation is unusually high). In any case, most employees of such firms would be highly skilled and hence such companies would be less prone to any kind of industrial unrest. Overall, these entrepreneurs seem to have a positive, friendly and developmental approach to their staff.

Market Orientation

Most entrepreneurs surveyed seem to believe that the customer is king and they have to satisfy customer requirements exactly (Table 3). The results supported the findings of Bruno, Mcquarrie and Torgrimson¹³ that honouring the customers and their needs is critical for the success of new technology ventures. Our entrepreneurs believe that a good product/technology may not become a commercial success unless the customer is ready and is willing to pay for the products. They recognise the need to identify market niches and meeting specific customer needs for success. For instance, VXL's success in computer peripherals and Microland's success in computer networking can be attributed essentially to their niche marketing.

Some entrepreneurs who did not have a balanced view of technology and the market paid heavily for their lapses. This was amply demonstrated in the case of one computer graphics firm which, despite being one of the most advanced in terms of software capabilities in the country has not even been able to break even its operations after a few years of existence primarily because the product they had offered was ahead of its time in India! There is ample evidence in the literature to suggest that

TABLE 3
Market Orientation

<i>Heuristics</i>	<i>Mean</i>	<i>S.D</i>	<i>Skewness</i>
Enter attractive niches & dominate	3.27	1.04	-1.64
Create market by concept selling	3.00	1.30	-1.12
Serve customer innovatively	3.23	1.07	-1.47
Innovate new use for existing prod	3.00	1.44	-1.31
Customer is king	3.42	0.95	-2.09
Innovate promotional strategies	2.69	1.35	-0.82
Differentiate through quality	3.15	1.08	-1.46
Innovate distribution channels	2.42	1.36	-0.61
Package innovatively	2.08	1.32	-0.35
Go global	2.46	1.36	-0.59

the timing of entry into the market is critical for the success of a technology intensive firm.¹⁴ In short, even a technologically superior product or service will fail if the customer is not ready to accept it for whatever reasons.

Interestingly, some of the other components of the marketing mix such as packaging, promotion and distribution had not caught the attention of many in any significant way, contrary to the findings of Bruno, Mcquarrie and Torgimson.¹⁵ They have not thought about innovations in these areas. There could be two explanations for this. One, since their products were unique and highly market focused, there was sufficient customer pull that ruled out the need for innovations in marketing. Two, because of their bias towards technology and quick market acceptance of their products, they did not even realise that there could be possible innovations in marketing. It is likely that in most cases there could be a combination of these two explanations.

Looking at the relatively high standard deviation that marketing heuristics have (except for 'customer is king') compared to people- and technology-related heuristics discussed earlier, we feel that there is less unanimity to be seen about marketing heuristics. Taking into consideration the reasonably high negative skewness also, we tend to believe that most entrepreneurs identify themselves with these heuristics to a large extent. Still, the differences in perception may be due to the differences in the products and services. It appears that for several products the latent demand may be already mature, following Ramachandran's¹⁶ finding that marketing efforts would be low where the latent demand for the product is mature. It appears from this discussion that though

marketing is an important function and customer orientation is critical for success, not all entrepreneurs have actually experienced the challenges of marketing.

Finance Orientation

As shown in Table 4, high-tech entrepreneurs seem to believe in the ploughing back of funds for growth investments. This is natural for at least two reasons. One, most of them start with small capital investments primarily for want of resources. Yet they have ambition to grow, which can be achieved only through reinvestment of their returns. Two, most of them become entrepreneurs by choice, and because of their love for technology it is natural to invest in it. Their entrepreneurial urge does not seem to be highly money oriented but oriented towards establishing them as successful technology oriented entrepreneurs.

Similar to some of the marketing heuristics, the views on the use of cheap funds and building bargaining power for low working capital are divided. This could be a reflection of the variety of challenges entrepreneurs face on the finance front.

TABLE 4
Finance Orientation

<i>Heuristics</i>	<i>Mean</i>	<i>S D</i>	<i>Skewness</i>
Start small, reinvest returns	3.46	0.76	-0.98
Cheap funds during tech absorptn	2.73	1.12	-0.69
Build bargain power for low w/c	2.31	1.32	-0.59

Growth Avenues

Technology is the heart of core competence.¹⁷ It appears that because of the high-tech entrepreneurs' relatively strong base in and bias towards technology, they have explored growth opportunities in areas where they can leverage and build on existing technological capabilities, and that too where market opportunities exist. This premise is supported by the presence of a market pull strategy followed by most firms as discussed above.

As shown in Table 5, their strategy for growth is entirely based on related technologies. They have, in fact, categorically indicated their unwillingness to grow via unrelated diversification (mean only 1.96). In fact, in nineteen out of twenty-five of the *Business India* cases studied in the beginning also, the entrepreneurs chose product/technology related

TABLE 5
Growth Strategies

<i>Heuristics</i>	<i>Mean</i>	<i>S.D.</i>	<i>Skewness</i>
Unrelated diversification	1.96	1.18	0.52
Expand through acquisition	1.73	1.08	0.16
Stick to the knitting	3.12	1.14	-1.54
Related diversification	2.96	1.04	-1.02
Backward integrate to grow	2.54	1.27	-0.74

diversification to achieve growth. This seems to be natural for high-tech entrepreneurs who build their core competence around technology. Five of these nineteen firms achieved growth through strategic alliances with technology suppliers largely to ensure supply of resources. Roberts and Berry's finding that successful firms stuck to their initial technology area and introduced new products only in related areas also supports this conclusion.¹⁸ It appears that market unrelated diversification may be too risky for them as their core strengths are in technology.

High-tech entrepreneurs studied here are generally growth oriented. Again, in sixteen out of twenty-five of the *Business India* cases studied also, the entrepreneurs went global to grow in the market place. This not only enabled them to position themselves better in the growth scenario but because of their technological capabilities they were able to make their entry much more smoothly. In some cases such as software firms, entrepreneurs had the double advantage of high quality and low cost, which enabled them to capture the export market faster.

Realising the need to build their core resources to maintain a competitive advantage, more than 60 per cent of all the firms studied have invested in upgradation of technology and product features. The history of successful high-tech firms shows that they did not wait for the development of a perfect product (which anyway is like a mirage) before its market launch. Instead, they continuously improved and perfected the product and thus maintained market leadership. In short, we observed a high level of mission clarity for all the fast growth firms, though not all of them may have a written statement as noted by Bart.¹⁹ They were able to fine-tune their core competences to accomplish growth.

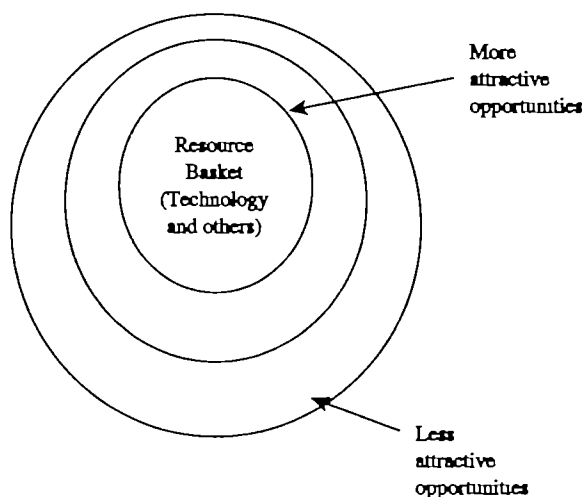
Core Resources

The process of building competence is generally gradual, starting with the basket of skill and knowledge that entrepreneurs bring to the

organisation when they start. Subsequently, all additions to this basket in terms of soft and hard knowledge and skills enrich and strengthen the basket, thus creating possible entry barriers for others to penetrate. Over a period, many firms manage to have a mix of resources in this basket that will enable them to explore a variety of opportunities, all using their supply of resources.

As shown in Figure 1, entrepreneurs seem to look around for opportunities where they can use their core resources. This gradual spread from the inner circle to outer circles (say, somewhat market unrelated) enables them to manage their risk better. Looked at from another angle, high-tech entrepreneurs seem to follow a circular ring diversification model as shown here, compared to the matrix model of Ansoff.²⁰ Also, this growth path, in a way organic, is especially useful for small and medium firms that are largely resource starved.

FIGURE 1
Core Competence — Growth Model



Our findings also indicate that in these firms technology plays the central role. The other functional inputs maintain a relatively lower profile but have active supporting roles in strengthening the resource basket. With the technology at the centre and with synergistic orientation

in finance, marketing and personnel areas, high-tech firms are in a unique position of strength. Their clear positioning of their products creates a pull effect from the market, which often discounts the role of other components of the marketing mix such as innovations in advertising, distribution and pricing.

There are various possible explanations for this pattern of behaviour. One, since these firms introduced technologies and products innovative to the Indian market, they might have had a pioneering position to start with. Also, they must have realised the need to upgrade their leadership position in the market. For them, the major challenge was to build the market by reaching the customers in the niche market and meeting their needs. The process of marketing was made easier for them by the unmet demand that existed for their products. As is reflected in their marketing heuristics, they do not believe in or at least have not realised the need to have innovative approaches to advertising or packaging. This may also be because most firms offer only industrial and intermediate products where the need to advertise and package is not generally high. It should be remembered that these entrepreneurs have not created a new industry, but only new products in an existing industry, and hence the challenge is more for establishing links with the customers.

Shanklin and Ryans²¹ underlined the importance of synergy among technology, R&D and market for high-tech firms. We, however, do not find evidence to support their view that one may have to do more of advertising, pricing and distribution to market high-tech products. This seems to suggest that wherever the match between technology and the market is easily established, especially where the latent demand is nature, the need for investing in advertising and distribution of an innovative nature may be low. In short, where the market uncertainties are not very large, the inherent risk is limited and these firms may be able to find a match between technology and the market without much difficulty.

Two, since most of the firms studied here are successful in their operations, the pressure to innovate totally new products may not have existed. It seems that the axiom 'necessity is the mother of invention' holds good here. This may also be a feature of the level of development of the economy in developing countries such as India, where there are plenty of opportunities still existing for marketing products that are already available in advanced countries. On the contrary, in advanced countries the pressure will be to innovate entirely new things. This means that the effective level of risk to be managed in a developing country is relatively low. Moriarty and Kosnick²² may be correct in

saying (in the context of advanced countries) that high-tech firms in general face uncertainties about technology and market.

Based on discussions with the entrepreneurs, we found that firms that faced weaknesses in areas such as marketing and finance tended to build alliances with others to overcome them. Several entrepreneurs followed this route and entered into marketing tie-ups especially when the risks associated with the technology were greater.

Conclusion

This study has shown that heuristics are very important in determining the functional and business strategies of high-tech firms. In the case of technology intensive firms, their strategies are naturally driven by technology, but it is their appreciation for and application of the other functional strategies that makes them winners. Many of the entrepreneurs have been able to create and sustain market pull for their products because of the synergistic effect of their strategies. Further research on finding out the actual correlation between the various heuristics and firm performance will be appropriate. That may also provide an insight into the development of appropriate training inputs to make high-tech entrepreneurs more effective.

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Understanding Business Systems in Developing Countries

edited by

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Management and Change, Volume 5, Number 1 (January–June 2001)

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Indian Review of Books (16 May 2000–15 July 2001)

The key theoretical approach highlighted in this book is the concept of a 'business system' as defined by Richard Whitley and his associates. Essentially, this approach assumes that there are some features of the way economic actors are organised, which are characteristic of and peculiar to a given country and/or region. Rather than dwell on the general features of economic actors across countries, this approach studies how firms are constituted as discrete economic actors in different market contexts. This volume elaborates this approach both theoretically (by drawing on insights from other theoretical approaches) and empirically (by reporting results from country studies of business systems in Malaysia, South Korea, India, Indonesia and Ghana).

An important addition to the literature on business in development, this volume will be of interest to those in the fields of international business, industry, organisational behaviour, management, economics, and development studies.

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Venture Capitalists' Insight, or the Ability to Describe the Formal Rules of Business Evaluation?

HERNAN RIQUELME

This research tests the proposition that venture capitalists' insight and the high consensus found among venture capitalists (VCs) are based on a causal theory shared within the subculture. The methodology follows two non-overlapping approaches: conjoint analysis and a survey. In the first case, less experienced VCs (trainees) were asked to predict—with their subjective weightings of criteria—the senior VCs' holistic judgements to fund new business proposals. In the second approach, senior VCs and less experienced VCs were asked to rate their degree of agreement with seventy-three heuristics or rules of thumb collected within the British venture capital subculture. A control group was also used to test if agreement was beyond chance.

Both correlation of predictions of VC trainees about the holistic judgements of senior VCs, and comparison of the level of agreement/disagreement with the heuristics indicate that the VCs share consensual cognitive structures.

This study discusses the implication of a consensual causal theory for the understanding of insight or introspection, attribution of blame to entrepreneurs in failed businesses, and the learning and perpetuation of the rules of thumb or heuristics within the subculture.

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Introduction

Traditionally, studies on venture capitalists' (VCs') decision making have concentrated on identifying decision criteria. Later studies have taken a turn towards an understanding of judgement/decision making within the cognitive paradigm. Key areas in this paradigm are the study of VCs' introspection or insight¹ and the effect of expertise.²

It is important to determine if VCs are aware of their decision policies, and whether they are correct in their verbal reports about the

criteria they use to make decisions. If they are not aware of or accurate about the decision criteria they apply then those criteria will be of little use to the VCs themselves or to entrepreneurs in general. Such poor introspection will also have implications for training. If VCs communicate the wrong decision criteria to their subordinates, wrong decisions will be perpetuated within an organisation.

A couple of studies have concluded that VCs have poor insight into their decision policies in general, more so when they increase the number of criteria on which they evaluate a business proposal.³

While these studies seem to be in agreement with findings in the judgement literature, it is also fair to say that all the research has found some degree of correspondence between subjective and objective weights, implying that in some circumstances people can be accurate in reporting about their decision criteria.⁴

Good levels of introspection can be expected when people have a theory to guide their inference or when the decision-making process follows culturally learned rules.⁵ This is particularly true for people who have received explicit training in the use of an algorithm or judgemental strategy such as clinicians and brokers.⁶ This testable hypothesis has been tangentially discussed in the more recent literature on venture capital.

We propose here that VCs' good levels of insight (although not perfect) found by some scholars⁷ and the high degree of consensus⁸ found by some others come as a result of an acculturative process. Venture capitalist trainees and novices learn about propositions, rules and norms applied by their senior VCs when they assess businesses. This learning implies an understanding of the traditional meaning of these rules and their importance as they are interpreted by the senior VCs. Trainees, at a later stage, internalise these rules and make them their own. These rules become culturally constituted beliefs and form a causal theory of what constitutes good business for investment purposes. We propose that it is this causal theory that VCs are describing rather than 'insight' as interpreted by some researchers. Can we say that VCs are engaging in introspection when less experienced VCs can predict their decisions?

We propose that the set of beliefs which guides VCs in assessing new business proposals also instigates actions which are consensual within the subculture. The term subculture is defined here as the attitudes, beliefs, values and norms that are shared among VCs.

This overall proposition is broken down into the following testable hypotheses:

H (1) Less-experienced (trainee) VCs' holistic judgements (likelihood of funding a venture) correlate, beyond chance level, with holistic judgements of those more experienced VCs.

If trainee VCs' intuitive judgements are similar to those of their seniors, beyond chance level, one could plausibly infer that trainees are following formal rules of evaluation explicitly taught within the venture capital subculture.

H (2) Less experienced VCs can predict—with their subjective weights of criteria—senior counterparts' actual judgements (likelihood of funding a venture as generated by conjoint analysis) beyond pure chance level.

If trainees can predict, with the rules they have been explicitly taught, the actual judgements of experts one could plausibly infer that VCs share a common set of criteria within the subculture.

Furthermore, this leads one to question the extent to which VCs are actually engaging in introspection when they report their verbal decisions.

H (3) Senior and less experienced VCs agree beyond chance level, with the heuristics (or rules) entertained within their subculture.

Testing this hypothesis is an alternative way of investigating the contention that VCs share a common set of rules. It will also determine whether experts exhibit more consensus than naïve VCs as is seen in one such recent study.⁹

The high degree of consensus¹⁰ that is found between expert and novice VCs, and the high correspondence of decision policies found between American and Canadian VCs¹¹ as is seen in another study support the proposition that the VC subculture shares a set of rules that could be influencing 'introspection' (or 'insight') and consensus.

Literature Review

Zacharakis and Meyer in 1998 had studied the decision policies of fifty-one VCs using the lense model within the social judgement paradigm.¹² These authors found that as VCs increased the number of criteria on which they based their decisions, their degree of introspection became poorer. The authors concluded that VCs do not have a good understanding of their decision policies; especially as the number of criteria they report using increases. Notwithstanding this overall conclusion, the authors indicate in their analysis of Treatment 1: 'By visually examining the weights and respective ranks for each cue, it appears that VCs...have

a strong understanding of their decision process.¹³ Furthermore, if we observe the Median stated decision policy (i.e., VCs' reported decision-making criteria) values for Treatment 1 ($r^2 = .4630$) and Treatment 3 ($r^2 = .5130$) where VCs assess businesses based on five and four criteria respectively, one can conclude that there is some degree of insight or introspection. The reduction in total variation, especially in the second case, is thus meaningful. Finding a high degree of insight among decision makers is thus not common, however the literature on human judgement has always reported some evidence of correspondence between the subjective and objective weights.¹⁴

Another study measured VCs' introspection using conjoint analysis.¹⁵ In this investigation sixty-six VCs made holistic judgements about a series of hypothetical businesses described in terms of eight attributes. The VCs were asked also to report on the importance of the attributes they were using. After correlating (Pearson correlation = 0.17) the weights produced by conjoint analysis and those reported by VCs, the author concluded that VCs showed limited introspection and that they understated some attributes and overstated others.

Finding evidence of a high level of insight among decision makers, although not common, has been reported in other areas of human judgement. In one research study of cue utilisation by independent auditors, a strong agreement (89 per cent) between subjective and statistical weights was found.¹⁶ A similar finding was also reported in a study in which college faculty and graduate students were asked to rate the appropriateness for financial aid of several candidates.¹⁷ Another researcher, using an alternative method of assessing insight, also reported good levels of insight among his respondents.¹⁸ In their study, forty college accounting majors made holistic judgements about hypothetical job offers. Seven out of the eleven students who attempted to identify their own policies were found capable of doing so. Finally, in a study of seniors' college choices, it was found that there was good correspondence between the students' verbal reports of their decision criteria and the actual criteria that apparently governed their choices.¹⁹

In one of the most controversial papers in the saga of introspection research, authors did claim that verbal self-reports can be correct but are not due to direct introspective awareness.²⁰ Instead they are due to the incidentally correct employment of *a priori* causal theories or some rules learned within the subculture.

Rule-governed behaviour is very prevalent in social life. In many areas cognitive activity depends heavily on socially structured and

socially acquired knowledge, e.g., clinical judgement, stereotypes, impression management.²¹ The notion of 'scripts', has infiltrated the cognitive literature, and refers to an individual's knowledge of socially produced rules.²²

It is unfortunate that the study of introspection has often failed to acknowledge the social nature of individual decision making. Many of the invariants we observe in behaviour are social invariants. Many are invariant only over a particular social and particular era, or even a particular social or professional group within a society.²³ This appears to be the case within the VC subculture as shown by the fact that there is considerable agreement among VCs in their decision criteria²⁴ in different regions of the world.²⁵

Another study that investigated the relationship between expertise and decision predictability amongst expert, novice and naïve VCs (MBA students) concluded that there were no statistical significant relationships between expertise and aggregate predictive ability or between the number of criteria used and the level of expertise.²⁶ The criteria were weighted significantly differently only between naïve VCs (MBA students) and VCs (both experts and novices). Expert VCs and novices exhibited similar decision policies as expressed in their mean standard deviations (1.835 and 1.753 respectively). This was significantly different from naïve VCs' standard deviation: 0.166. This study also concluded that there was more consensus between experts and novices than between naïve VCs and either of the other two groups.

Is this degree of consensus a generalised phenomenon in the venture capital subculture? What is the origin? What are the implications? These issues have been investigated in this article.

Methodology

In order to test the propositions, two independent methods were used: conjoint analysis and a survey. Research programmes have often involved multiple studies and techniques in order to obtain robust testing of hypotheses.²⁷ The fundamental rationale behind using two different methods is to approach the hypotheses with methods that have non-overlapping weaknesses but complementary strengths.

Methodology for Predicting Holistic Judgements

The mathematical model used to test H(1) and H(2) was conjoint analysis. This is a well-tested statistical tool that has been widely used and validated in marketing²⁸ and more recently in venture capital.²⁹

Conjoint analysis is a decompositional method. It starts with the respondent's overall evaluations of hypothetical alternatives (e.g., business proposals), which are then used to derive the importance attached to each of the criteria, and their levels (e.g., attractive market, non-attractive market) as used in the decision-making process.

The conjoint analysis method was used to generate thirty hypothetical profiles of businesses for evaluation. The profiles contained negligible correlation (because they were generated by an orthogonal design) and contained no combinations of attribute levels predetermined to be non-representative.

The attributes and levels used in the profiles (shown in Annexure 1) comprised eight criteria that are normally considered by British VCs in evaluating proposals. The first five of these attributes had two levels and the rest had three levels. These variables were obtained from a review of documents, business proposals and a literature review on venture capital decision making in the UK.

The Sample Profile

The subjects were a related sample of nineteen senior VCs whose range of experience was between five years and fourteen years with a mean of 9.7 years, and nineteen VC trainees (less experienced VCs) whose experience ranged from two months to 2.9 years with a mean of ten months. All respondents came from 3i plc, the biggest venture capital firm in the United Kingdom. These VC trainees were investors. They were undertaking a fund-managing training programme. Their experience in the VC industry was about three years—the duration of the training programme.

Data Collection Procedure

A set of thirty new business venture profiles was sent by mail with a self-addressed pre-paid envelope. The set was accompanied by a cover letter of one page containing the instructions and an example of the exercise to be performed. Another page requested the VC to rate the different attribute levels and the importance of each of the attributes. The subjects were asked to evaluate each of the attribute levels by giving ten points to the most preferred level and zero to the least desired attribute level. Respondents were asked to rate the importance of the criteria by allocating 100 points across the set of criteria.³⁰ The dependent variable was the likelihood of funding the new venture profile. This was reported on a seven-point scale.

Methodology for Collecting Heuristics

A set of potential heuristics³¹ was compiled from reviews of case studies and business proposals, published interviews of VCs and personal interviews with senior VCs. Inferences were made about the heuristics which might have guided the evaluation process. In many cases the heuristics or rules were straight forward. Some of them included:

- Don't expect the inventor of the product/idea to run the business unless s/he has proven managerial experience.
- Avoid highly competitive markets.
- Choose teams that have already worked together.

It is important to note that the thrust of this study is not about the identification of the heuristics but their use in order to test whether the venture capital culture has a particular set of rules that is being transmitted to less experienced VCs, thus producing the high degree of consensus³² and the agreement among criteria in general.³³

The heuristics used were gathered from practising VCs within the UK rather than collected from previous studies because they were meant to represent the rules within that particular subculture.

A set of seventy-three heuristics were assembled into a questionnaire which required each VC to rate on a four-point scale, their degree of agreement/disagreement with each of the heuristics. The argument for only four intervals, i.e., strongly agree, agree, disagree, strongly disagree, rather than five intervals is that an attitude cannot be neutral because it is a disposition.³⁴ It was also chosen to avoid the human bias towards a 'centre'.

The Sampling Frame

The questionnaire was sent to 314 VCs, two investors per fund. Usable questionnaires were returned from 147 VCs who represented 67 per cent of the UK's leading venture capital funds. Their mean experience was 7.3 years and the range was ten months to twenty-three years. There were forty-five senior VCs who had ten or more years of experience. In order to eliminate the potential acculturation (which was tested) the less experienced group was formed of VCs having up to four years of experience. This cut-off point was chosen to maintain a good sample size for this group, taking into consideration that if 3i plc trains VCs for three years, one more year will not make them experts. The less experienced constituted the second group. This group included fifty-one individuals.

A control group of eighteen subjects (clinical scientists working in medical laboratories) was also tested to determine whether the level of agreement between the VCs was greater than that between VCs and non-VCs, and to indicate whether heuristics were part of the subculture and not merely common sense. The reason for choosing this group rather than MBA students was to make sure that the group had not been exposed to the rules learned within the subculture. Unlike clinicians in medical school, MBA students learn how to evaluate a business and therefore they could potentially predict the rules.

Results

Results from the Conjoint Analysis

In order to test H(1) the correlation between thirty holistic intuitive judgements (likelihood of funding the venture) by senior VCs was compared with holistic judgements performed by less experienced VCs (trainees). A correlation of $r = 0.67$ was found indicating that senior and less experienced VCs agree to a large extent on whether to fund a venture. A calculated t-test ($t = 3.724$) indicates that an $r = .67$ has a probability of occurring by chance of $p = .000$. This correlation supports H(1) that states that less experienced VCs' intuitive holistic judgements correlate, beyond chance level, with intuitive holistic judgements of those more experienced.

In order to establish if a less experienced VC could predict a senior's actual judgement (regarding likelihood of funding a venture), the trainees' predictions based on their subjective weights were correlated with the seniors' actual judgement generated by conjoint analysis. A correlation ($r = 0.50$) was found. A calculated t-test ($t = 2.380$) indicates that the probability of obtaining such correlation by chance is $p = .025$. This level of correlation supports H(2), i.e., trainee VCs with their subjective weighting of the criteria can predict their senior counterparts' actual judgements beyond pure chance level.

Both of these correlations indicate that, on average, less experienced VCs make similar judgements about new business ventures to those of the seniors. These results are in agreement with very recent findings,³⁵ wherein it was found that in both cases of novice as well as expert VCs the decisions did not differ significantly (statistically speaking).

These results also appear to support speculation by other scholars, that a subject's actual weights (and holistic judgement) might be predicted by somebody from the same industry where explicit training is

given.³⁶ It may be indicative that the subjects are engaged in 'prospective' introspection. It also gives support to the contention that VCs share a common set of rules or heuristics within the subculture, a causal theory of what constitutes a good business to fund, otherwise how could such strong correlation in their judgements be possible?

In order to test if this last conclusion were true when examined using a different method, experienced and less experienced VCs were asked to state their degree of agreement/disagreement on seventy-three heuristics. The results have been analysed and presented in Annexure 2.

Results from Comparison of Heuristics

First, the coefficient alpha³⁷ for the seventy-three heuristics was calculated. A level of 0.91 was found, a value considered acceptable.³⁸

Next, a t-test was performed in order to evaluate if there were differences in the level of agreement/disagreement over the seventy-three heuristics analysed. Senior (forty-five subjects) and less experienced VCs (fifty-one subjects) reported similar viewpoints in the majority of the heuristics or rules. There were only three discrepancies among the seventy-three rules. Senior VCs agreed with the following statements:

Invest in people who come from medium to small companies.

Catch them young. Invest in early stages.

Less-experienced VCs disagreed. The inverse occurred with the rule:

Invest in business proposals that can be licensed out or franchised.

Other differences found between the groups merely highlighted the strength of a view. That is to say, one group agreed more than the other but both indicated agreement with the statement. (Annexure 2 lists the heuristics.)

One method used to see if the level of agreement was statistically significant was to calculate the number of rules on which the two groups agreed or disagreed (96 per cent = 70/73) compared with a 50 per cent benchmark. (A 50 per cent bench mark assumes that subjects could agree/disagree by chance on half of the rules.)

A test of proportion was applied to the figures and a normal deviate (z) value of 5.01 indicated that the proportion of agreement to the rules is far beyond chance level ($p = .000$). A second method used was to find mean values for the two groups and perform a t-test. The correlation of the mean values was .626. The probability of finding such correlation by chance is $p = .000$.

So far, these statistics support H(3) that less experienced VCs agree—beyond chance level—with the rules senior VCs consider when evaluating a new business proposal.

A further test to confirm that agreement with the heuristics was beyond chance used the control group of eighteen clinical scientists to rate the heuristics. A test on means was performed on the data and thirty-one significant statistical differences were found ($p = .05$). The differences indicate that one group agreed and the other disagreed. A test that compared the proportion of disagreement with the rules between experienced and less-experienced VCs (4 per cent = 3/73) was compared with the proportion of disagreement between the clinical scientists and the experienced VCs (42 per cent = 31/73). A normal deviate value calculated ($z = 3.8$) indicated that the clinical scientists differ significantly (statistically speaking) in their rating of the VCs rules ($p = .001$).

This final result points to the conclusion that the less experienced VCs were not just guessing the heuristics of their senior counterparts.

Discussions

The results from the first study in which judgements about likelihood of funding a venture were compared between expert VCs and less experienced ones, seem to indicate that VCs could be sharing some common understanding of what constitutes a good business to fund. When less experienced VCs make judgements about the likelihood of funding a venture based on the subjective importance they ascribe to the assessment criteria, the resulting level of agreement between the experts and less seniors cannot have been due to chance. It seems highly likely that the less experienced VCs were using similar weighting of criteria to the senior VCs in their decision about funding a business. This finding could shed light on the relationship between criteria number and self-awareness found in the literature. Some researchers have found that when VCs used five attributes to evaluate a business proposal the Median r^2 Stated Decision Policy (SDP) was 0.4630 and when they used four attributes the Median r^2 SDP increased to 0.5190.³⁹ In both of these cases, the VCs show some degree of insight or self-awareness of their stated decision policies. This level of insight among VCs should not be a surprise. Self-awareness has been proposed as a pre-requisite for rule-governed behaviour.⁴⁰ In order to practise certain rules an individual must be aware of their existence.

The authors also indicate that VCs are highly consistent in applying their decision policies, a finding that is in agreement with some

researchers.⁴¹ The consistency can also be ascribed to the existence of a conscious set of criteria and to the importance of each of the criteria.

The results from the heuristics survey point to the issue of consensus. The agreement/disagreement responses to the seventy-three heuristics can be interpreted simply as indications that the majority of VCs are endorsing the statements provided in the questionnaire. However, we would like to suggest the result be interpreted in a stronger way, that is, as evidence of a conscious agreement and shared experience. This is based on the fact that the interviews conducted revealed that VCs overtly agree and understand that there is agreement among them. They are consciously aware of the presence of a collective 'script' and a set of rules. The differences encountered between the control group (clinical scientists) and VCs demonstrated the existence of a socially constructed set of rules within the subculture. If the assessment process of how to evaluate a new business were not a socially constructed product, we would expect little agreement among the subjects within the subculture. As shown by the high percentage of agreement with the heuristics among VCs this could not have been the result of mere guessing by less experienced VCs. Both methods applied in this investigation ratified the consensus identified in previous studies and seem to explain the nature of such consensus.

What are the implications of this high level of consensus? Consensual structures demonstrate the social nature of cognition, the societal context within which cognitive and affective processes take place, interact with, and determine individual processes. The greater the degree of social consensus about what constitutes a good business in the VC society, the more likely an individual (a trainee) will select and organise information about the process in accordance with that societal expectation.⁴²

Adherence to rules by group members is due neither to the rationality of the rules, nor to the physical consequences which their following or breaking may have. These rules are followed mainly because people are conscious that these rules represent attitudes of the group and due to the realisation of the social consequences that will ensue for the person if these rules are obeyed or disobeyed.⁴³

What constitutes a good business is treated as a 'reality', a 'conventional reality'.

Consensus has also been demonstrated to have an effect on attribution.⁴⁴ Group pressures, such as ideas about what is acceptable in a particular subculture, have played an important part in the production and the maintenance of prejudices.⁴⁵ This consensus has repercussions such as

the fact that VCs in general tend to ascribe the blame of business failure to the entrepreneur rather than to external factors.⁴⁶

Thus consensus may have a detrimental effect on the assessment process, especially if individuals become instruments for maintaining conformity.

The widespread occurrence of human biases reminds us that people are very often reluctant to question their values and assumptions, even when these features of their causal theories are demonstrably wrong.⁴⁷

The considerable level of agreement among VCs within their subculture does not contradict the fact that there are individual differences among investors and between one subculture and another in a different country. It is well established that start-ups promoted by families will be perceived differently across different VC subcultures around the world depending on the influence of the concept of family and family-based business management skills when a venture capital is proposed. Also the concept of experience can be perceived differently across VC subcultures. Americans are inclined to fund start-up businesses although the proposers may have failed in the past. For the American venture capital system this is regarded as valuable experience. British VCs are more reticent to fund entrepreneurs who have failed in the past.

Limitations of the Study

A limitation of this study is the small sample used in the prediction of holistic judgements. Finding a related sample (i.e., a large number of trainees within the same company) proved more difficult than expected. It must be borne in mind that the sample was purposely chosen to test the hypothesis that a trainee could predict the holistic judgement of a senior VC. To have used a larger group from different companies might have contaminated the experiment and made the results less conclusive.

Another problem could be the number of hypothetical profiles used in the conjoint model. It was decided that we use five hypothetical profiles for each attribute; the more hypothetical profiles the more tiresome the activity becomes for the respondent which could have compromised the consistency of the results due to the concentration required during the exercise.

Conclusion

This study sought to explain the origin of insight and the high degree of consensus found among VCs in previous studies. The overall conclusion

is that such knowledge has a social origin that emanates from the VCs' heuristics or rules within the subculture.

This mental process is transmitted by the community and employed to solve subsequent problems such as the evaluation of business-funding proposals. It appears that there are some norms, rules, or 'heuristics' that VCs share with others. The cognitive processes that underlie the assessment of a new business venture proposal are the internalised social processes. The seniors guide the trainee into a particular set of interpersonal practices and rules. The process of internalisation is not automatic and it takes some time for an external activity to become internalised. Once the trainee adopts these practices and rules the individual becomes a full-fledged participant.

The degree of consensus observed in this study is produced by the coordination and communication that exists among investors. This is because the VC community worldwide is a small and highly coordinated one whose information and rules of thumb are shared among geographically dispersed VCs. This has produced the high level of consensus found across the various cultures.

Our study has also shed light on the origin of insight. The question remains though, as to whether what we call insight is legitimately introspection or simply the verbalisation of rules that have been learned within the venture capital community; the verbalisation of a causal theory.

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ANNEXURE 1

Attributes and Attribute Levels Used in Hypothetical New Business Profiles

A. Entrepreneur's knowledge of production and technological process

- Yes
- No

B. Entrepreneur's managerial experience

- Yes
- No

C. Unique features of the product

- Yes
- No

D. Patent to protect the product

- Yes
- No

E. Functioning product prototype

- Yes
- No

F. Market growth

- Less than 10%
- Between 10% and 19%
- Over 20%

G. Level of competition in the industry

- Low
- Medium
- High

H. Expected product gross margin

- Below 40%
- Between 40% and 49%
- Over 50%

ANNEXURE 2

Heuristics Compiled for the Study

	<i>T-test</i>	<i>Mean</i>	<i>Mode</i>
Key: * = p .05			
1 = strongly agree, 4 = strongly disagree			
1 Rules related to the entrepreneur/team.			
1 Don't accept the inventor of the product/idea to run the business unless he has proved managerial experience.		1.5	1
2 Choose entrepreneurs with sales ability and market knowledge of the product/service.		1.8	2
3 Choose entrepreneurs who have previously worked in a similar business to the one proposed to you.		1.8	2
4 Invest in a business proposal where the management team is already in post.		2.1	2
5 Choose projects promoted by entrepreneurs skilled in the technology and production of the product.		2.1	2
6 Select those entrepreneurs who have started a business before regardless of their success.		2.8	3
7 Select entrepreneurs who have had profit responsibility and who have turned a low profit-division into a high one.		2	2
8 Don't invest in a new venture proposal if none of the team members has managed a group of people.		1.8	1
9 Invest in a team rather than one entrepreneur.		1.8	2
10 Choose teams that have already worked together in their past business careers, rather than those who got to know each other socially.		2.1	2

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11	Choose team members who have come from functional areas rather than general management.	2.5	3
12	Invest in people who come from medium to small companies (under £20m turnover).	* * 2.5	3
13	Choose a team that has been together in bad times of the business cycle (e.g., recession).	2.2	2
14	Select entrepreneurs who are in their late thirties and who have decided to run their business as a second career.	2.7	3
15	Pick business proposals in which the management team has made career (job security) sacrifices.	2.3	2
16	Don't invest in a business where the entrepreneur is planning to take a salary higher than what he has made before.	2	2
17	Don't fund a new business venture unless the entrepreneur's goal is 'to build a company whose stock price is high enough to make everybody rich'.	2.1	2
18	Choose proposals where the business proposer comes from a family of entrepreneurs.	2.9	3
19	Don't invest in new business proposals where none of team members has managed in growth environments.	2.3	2
II Rules related to the market/industry.			
20	Avoid highly competitive markets	2.2	2
21	Go for a business aimed at a growing market rather than a stagnating one even though the latter is well established.	2.2	2
22	Reject ventures where there is no clear market for the product at the time of investment however technically advanced the product may be.	1.6	1
23	Avoid ventures which are dependent on a single market.	2.3	3
24	Choose products that aim at a market niche.	1.9	2

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25	Select business proposals in which the venture can credibly obtain a very high market share compared to the competition.	2.2	2
26	Select those business proposals that address big problems of society (e.g., cancer).	3	3
27	Select business proposals that address an international market	2.5	3
III Rules related to the product/technology.			
28	Don't invest in a new business venture if the product does not have a competitive edge.	1.7	2
29	Don't invest in ideas or even prototypes. Go for a working product as a minimum.	1.9	1
30	Don't invest in a new business venture unless its product's gross margin is 60% or greater and the cost/sales ratio no more than 35%	2.6	3
31	Preferably choose manufacturing venture proposals.	2.5	3
32	Don't select technologically advanced new ventures unless you know that the product can be produced at low cost to be attractive.	2	2
33	Select businesses that contain seeds for the next generation of products rather than just one-off ventures.	1.8	2
34	Invest in business proposals that contain proprietary products (can be protected by patents).	2.2	2
35	Do not invest in businesses unless all the product development has already been done.	2.4	3
36	Select a business proposal which provides a product that will be required by legislation.	2.5	3
37	Don't invest in businesses whose technology will take more than two years to develop.	1.8	1

IV Rules related to financial matters.

38	Don't invest in a new venture if you can't get the expected rate of return regardless of how good the management team and the product are.	1.9	2
39	Select proposals that fit with the current portfolio of the venture company.	2.1	2
40	Reserve an amount for second-round investment equal to the amount initially invested.	2.1	2
41	Choose mainly high return venture proposals (i.e. ten times payback in five years).	2.4	3
42	Don't invest mainly in working capital.	2.5	3
43	Select business proposals that will provide long-term capital appreciation rather than stable small streams of income.	1.9	2
44	Avoid a syndicate of investors.	2.8	3
45	Don't invest if the new venture's destiny is in the hands of a third party (e.g., % royalty to pay, the new company is a subsidiary of a larger one).	1.6	2
46	Don't pay for the entrepreneur's stock a price greater than 400% of the price paid by him for his stock.	2.4	3
47	Leave a substantial stake of the equity for the entrepreneur.	1.9	2
48	Invest enough to have a say in the venture (e.g., 30%-40%).	1.9	2
49	Choose those business proposals that after having doubled up both time and cost, still meet the required financial targets.	2.1	2
50	Realise your investments preferentially through sale of the company to another business.	2.1	2
51	Fund the new venture all the way through or syndicate right from the very beginning.	2.1	2
52	Realise your investment preferentially by selling back to the management team.	2.9	3

53	Lead a syndicate of investors if you have to be in one.	2	2
54	Don't put over 40% of your initial investment in the same business unless you have a proven business.	1.8	2
55	Hold securities senior to those held by the entrepreneurial team.	1.9	2
56	Do not allow the entrepreneurial team to become liquid before the venture capital firm.	1.4	1
V Rules related to the venture			
57	Catch them young. Invest in the early stages.	* 2.5	2
58	Invest in new ventures recommended by reputable people or institutions.	2.4	2
59	Reject ventures that rely on price as the major selling point.	2	2
60	Invest in business proposals that can be licensed out or franchised.	* 2.5	3
61	Choose business proposals where experts in the industry advise you to do so.	2.5	2
62	Pick new ventures that can be linked commercially or in manufacturing with larger companies.	2.2	2
63	Avoid business proposals that suggest a capital intensive venture.	2.3	2
64	Retain continuity of business plan reviewers with the investee after the investment has been accepted.	1.7	2
65	Choose fund managers with different specialisations (e.g., financial, marketing, general management) to associate them with the investee	2.1	2
66	Provide practical, hands-on management services and charge a modest fee for it.	1.9	2
67	Select business proposals whose companies are within easy reach (one or two hour distance).	2.4	3

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68	Allow the entrepreneur a say in the choice of the venture capital firm directors.	2.3	2
69	Invest only in new ventures that are in an industry or sector that you know well.	2.3	2
70	Don't commit funds in the same industry (sector) And in companies in the same stage of development in one period of time (year).	2.4	3
71	Select a majority of non-executive directors on the Board.	2.9	3
72	Invest only in proposals that have been approved by a unanimous vote among the executive fund managers.	2.2	2
73	Do not allow each executive fund manager to monitor more than five businesses that require great attention.	1.8	2

Family Enterprises and Business Partnerships: Rural Entrepreneurs in India, Malaysia, and Indonesia¹

MARIO RUTTEN

An overview of the major debates on entrepreneurship in South and Southeast Asia indicates an emphasis on collective forms of business organisation. While earlier views argued that collectivism in business activities was one of the main causes of Asia's backwardness, more recent notions emphasise that family enterprises and business networks account for Asia's economic rise. This article compares the forms of business organisation of rural entrepreneurs in India, Malaysia and Indonesia. It is based on empirical research among Hindu small-scale industrialists in central Gujarat, Chinese and Malay owners of combine harvesters in the Muda region, and Muslim owners of iron foundries in Central Java. These findings indicate that both collective and individual strategies are present within each group. It is the flexibility of the business organisation to adjust to changing social and economic circumstances that explains the success or failure of any enterprise. These findings are in line with studies on European entrepreneurs. There is therefore reason to reconsider the notion of significant differences in business organisation between Asian and European entrepreneurs

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Until recently, most studies on entrepreneurship in the Asian context emphasised the lack of individualism among the business community. This was generally based on the notion that industrialisation in Europe was achieved primarily by self-made men, whose entrepreneurial behaviour was supported by specific religious and cultural value systems. For a long time, it was therefore generally believed that capitalism breeds best in an atmosphere of individualism. Juxtaposed to this axiom, the entrepreneurs of Asian origin were thought to be culturally more inclined to operate along collective forms of business organisation. The predominance of joint-family enterprises in India and the presence of strong business networks among Chinese entrepreneurs in East and Southeast Asia were considered as blocks to the economic development of the entire

Asian region. This hindered Asian entrepreneurs from becoming large-scale industrialists who could match their Western counterparts.

The recent rise of the East Asian economies challenged these notions. More and more studies contributed to the argument that aspects like cooperation and networks were key factors in explaining the economic success of Asian businessmen. Family enterprises and business networks among successful Chinese entrepreneurs quickly became a popular research theme. At the same time, the failure witnessed among Muslim businessmen in Southeast Asia was explained in terms of their lack of organisational skills in mobilising capital to exploit business opportunities.

More recently, this view was also challenged. Although it is still too early to opine, it seems that the recent economic crisis in Asia set the stage for a return to the notion that collective forms of business organisation do not go together with the growth of industrial capitalism in the long run and eventually they result in economic stagnation. In all these arguments one does observe the argument arising because of the Asian crisis. The crisis partly lies in the inability of Asian businessmen to organise their enterprises on principles of autonomy, individualism, independence and universalism. Their form of business organisation, which is based on collective identity, dependency and particularism, contributed to the stagnation.

The major drawback of both the earlier and the recent approaches to entrepreneurship in Asia is that they have remained one-sided. They often discuss entrepreneurial behaviour in terms of individualism as against collectivism, assuming that some groups are culturally more inclined towards cooperation than others. My findings on rural entrepreneurs in South and Southeast Asia indicate that both types of entrepreneurial behaviour are present within one group. It is, therefore, neither so much of collectivism, nor individualism that can explain the success and failure of entrepreneurial behaviour. It is rather the adaptability and flexibility to adjust various social and economic forms of organisation to the ever-changing space and time that could best explain the phenomenon. This article has tried to capture this phenomenon. It is based on case studies of three different communities: (a) Small-scale rural industrialists in central Gujarat, west India, (b) Chinese and Malay owners of combine harvesters and workshops for agricultural machinery in the Muda region of north Malaysia; and (c) Muslim owners of small- and medium-scale iron foundries in rural central Java, Indonesia. The findings of these case studies are in tune with similar studies on European entrepreneurs.

Individualism and Entrepreneurial Behaviour

The argument that capitalism breeds best in an atmosphere of individualism has had many proponents. Interestingly, it was found that those who fuelled industrialisation in Europe were men having common origins. It was the social stratum of independent self-sustaining peasant-kulaks and small- and middle-scale craftspersons who laid the foundation of early European industrialisation.² The idea of the 'common' origin of the early European industrialists, as defended by many scholars is seen to be closely connected to a more general belief that the chief agents of productivity in the early stages of European industrial development were mostly self-made men. This belief was widely prevalent in the nineteenth century. Both Samuel Smiles,³ and P. Gaskell,⁴ argued that entrepreneurs who prospered were raised by their own efforts—commencing from very humble origins and pushing their advance through a series of unceasing exertions. These studies amply depict the above arguments. As quoted elsewhere, Gaskell went on to say that 'many of the first successful manufacturers, both in town and country, were men who had their origin in the rank of mere operatives, or who sprang from the extinct class of yeomen'.⁵

Most of the early European entrepreneurs generally operated independent of banks and other financial institutions. Their initial capital for setting up their workshops did not come from any institutional sources.⁶ They entered into partnership deeds to expand their businesses. These kinds of associations had their own disadvantages. Many times the autocratic nature led to disputes, which ranged from management aspects to those of profit sharing. Crouzet, however, clarified that '... there are actually very few examples among the larger concerns, whose owners usually wanted as few partners as possible, so that one more often sees them manoeuvring to oust irritating associates'.⁷

It is this belief of the 'self-made man' who sprang from a 'humble origin' of peasant-kulaks and craftspersons that has strongly influenced the notions on the early European industrialists. In this view, the early European industrialists were considered to be independent businessmen. Whatever profits they accrued were due to their own hard work. There was no government assistance. All of them had to survive in an open, free market economy with fierce competition. 'Born in humble circumstances' these entrepreneurs were able to set up their own businesses and eventually become wealthy and powerful through their own hard work, thrift, mechanical ingenuity and character.⁸

Following this notion of the early European industrialists as independent, self-made businessmen, many scholars '... argued that the importance given to caste in India and to clan in China placed inhibitions on the development of "capitalist" activity which was said to depend upon bureaucratic (that is, essentially non-familial, non-nepotic) organisation allied with an individualistic approach to entrepreneurship'.⁹ With regard to entrepreneurship in India, many authors have indicated that the joint family system militates against efficient industrial development. They argue that joint family ownership puts a hurdle in progress as ownership, when put on lower level of competency, results in poor and unviable business decisions. Many scholars also argue that such forms often act as a disincentive. They emphasise that the joint family discourages the ambitions of the more capable members of the family because it supports all members who stake a claim, some of whom may make no economic contributions. The third argument relates to restricted freedom. Joint-family organisation calls for passivity. The system understands that subservient behaviour and conformity to tradition are seen as functional requirements of the joint family. For example, while the structure of a joint family could be functionally ideal in an agricultural society, it might become dysfunctional in an industrial society. As a corollary, it has often been argued that the overarching influences of social institutions like family, kinship and caste in entrepreneurial manifestations in India often acted as a stumbling block in the economic progress of the country.¹⁰

In a similar line of reasoning, the predominance of family enterprises and business networks among Chinese entrepreneurs was held responsible for the lack of economic development in most of East Asia up to the early 1970s. These authors called attention to the uncertainty of investment when a business cannot transcend the person of the entrepreneur and the resultant identification of the family with the business operations of its head. They argued that the family component of overseas Chinese enterprises implies that these enterprises have to remain small. The reasons given were partly organisational and partly the tensions existing within families. This often led to split in property. Moreover, modern industry and the Chinese family business were considered to be mutually subversive, as family organisation encourages particularism, which ultimately results in nepotism.¹¹ Many a researcher argued that the extended Chinese family has negative economic effects because it cares for 'indolent' members and its pooling of income discourages individual savings and 'dilut[es] individual incentives to work' (p. 94).¹²

Researchers like Goody have seen these elements '...as linked to Confucianism which holds "familism" as a central tenet, just as Weber and his followers have seen ascetic Protestantism as doing a similar job for individualism in the West'.¹³ They argued that the ownership of property by a family or clan may give protection in hard times but remains a deterrent to economic progress. On the other hand, they argue that individualism tends to encourage experimentation and stimulates growth. It is this emphasis on collective forms of business organisation among the Asian entrepreneurs that was often seen as one of the key factors to explain economic underdevelopment.

Cooperation and Economic Success

Over the years, various scholars working in India started challenging the view that the joint family is a deterrent to industrialisation. During the 1960s and 1970s, many historians indicated the signs of transformation of the hereditary business communities into the modern business classes in India. They also argued that the rise of business corporations and corporate management in India was indicative of the fact that Indian businessmen were capable of perceiving new opportunities. They pointed out that these businessmen had also developed their own distinctive style of management, which on the one hand was consistent with the expanding needs and on the other gelled with the existing social structures. The tight organisation that characterised these groups (e.g., the Marwaris and the Parsis) helped the members of such communities compete on more than equal terms with the rest of the population.¹⁴

These arguments were further substantiated by contemporary studies on Indian entrepreneurship during the 1960s. Researchers like Milton Singer argued that joint family businesses often played a critical role in commercial and industrial activities in India. Far from inhibiting the growth of the economy, he went on to argue that the joint family and the wider caste and kinship groups provided the nucleus of capital. Milton Singer, in his research noticed the use of capital through caste and kinship groups for various technical and specialised educations of the members belonging to such groups. These investments were often made towards developing business and other acumen necessary to suit the changing times and for the purpose of operating and expanding existing industries.¹⁵ All these arguments which laid emphasis on the positive effects of the joint family on business systems and industrial success have been the focus of the research agenda on Indian entrepreneurship.¹⁶ A recent study on family

business in India has gone on record arguing that such family-dominated Indian business communities will further flourish in the current atmosphere of globalisation and free-market economies. They argue that the universal trend of networking and relational contracting is a phenomenon widely seen in the Indian style of doing business.¹⁷

Following the economic rise of East and Southeast Asia during the past few decades, an ever-increasing number of studies has challenged the earlier notions on Asian entrepreneurs, including the entrepreneurs of Chinese origin. The predominance of family enterprises and business networks among the Chinese entrepreneurs is seen as a factor that contributed to their economic successes. Having a Chinese or Confucian cultural tradition, these authors emphasise, has shaped the characteristics of these entrepreneurs, which include strong emphasis on personal advancement, hard work and self-sacrifice with the purpose of gaining honour for one's family, community and ancestors.¹⁸ It is especially the emphasis on extended family households and the development of the family business that is seen as a contributory factor in promoting capitalist behaviour among the Chinese entrepreneurs in Asia. Staying together as one family for a large number of years and dividing the property among a relatively small number of children (only sons), has made it possible to increase the scale of business operations and the opportunity to diversify economic interests. Moreover, these family firms are seen embedded in networks where trust and reciprocation are held as business values. These *guanxi* networks add scope and depth to the family firm. In fact, both sides work in tandem, each being dependent on the other for economic success. As argued by Hamilton, '... being part of such *guanxi* networks, family firms are tied to other family firms so that, by combining, they reach beyond the limitation imposed by their size, both geographically and economically'.¹⁹ In sum, the family firms and business networks among Chinese entrepreneurs are cultural artefacts, based on closeness, paternalism and intense managerial dedication. These artefacts also match the expectation of employees from the same culture. All this, according to most authors, has been instrumental in the recent accumulation of wealth by Chinese businessmen in Asia.

While family enterprises and business networks have become important factors to explain the recent economic success of Chinese entrepreneurs, the leeway seen for the Muslim businessmen in Southeast Asia is explained in terms of their lack of collective forms of business organisation. Some authors argue that the Muslim background has shaped their character of being hard working, untiring, independent, industrious and

accurate in calculating, etc. These characteristics are considered to support rational capitalist entrepreneurs. However, they combine their formidable drive and frugality with an intense atomistic approach to such an extent that it becomes almost impossible for most of them to cooperate even in the pursuit of clear common interests. This has contributed to their leeway. The lack of cooperation is reflected not only in their difficulty to maintain sufficient unity within their own families to ensure continuity of their enterprises. It has been observed that the decision to set up a new enterprise among Muslims, particularly, is often not based on their understanding of a viable market opportunity. More often than not, it is the result of the break up of a family business—an aftermath of succession. It results in a failure to make use of advanced organisational forms in accumulating capital—a strategic ingredient for business growth. Many authors have emphasised that business partnerships and entrepreneurial associations often take a very loose form that significantly protects the autonomy of the partners. As a result of the prevailing ideal of independence and the lack of organisational skills among Muslim businessmen, their enterprises tend to be short-lived and stagnant.²⁰

In sum, in contrast to the earlier views that emphasised the predominance of cooperation as the key factor to explain Asia's backwardness, more recent notions have stressed the predominance of family and other collective forms of business organisation as some of the key factors to explain Asia's economic rise over the past few decades. While the leeway of Muslim businessmen is often described in terms of their emphasis on individualism, the success of Chinese businessmen is usually associated with their strong sense of family and clan solidarity. To be able to make this 180 degree swing as an acceptable reasoning, the 'Confucian culture' argument developed by various researchers is being proposed as possible explanation.²¹ While earlier, the family enterprises and clan networks were used to explain the inability of Chinese businessmen in developing corporate businesses and thereby not becoming successful capitalists, the same argument is now turned around to explain their recent achievements. The authors now emphasise the contribution of traditional Chinese 'values' and modes of social organisation to their entrepreneurial behaviour.²²

Together, these recent notions have added to the rise of the notion of an alternative, collectivist form of capitalism in Asia, which is distinguished from the individual spirit held high particularly in the West. In all these analyses, it is generally believed that a social or family environment, combined with a keen sense of personal obligation to group

welfare and family loyalty, all of which is strongly influenced by traditional values and practices, has contributed to the recent accumulation of capital and development of entrepreneurship in Asia.²³

A common feature seen in both the earlier and more recent approaches to understanding entrepreneurship in Asia is that they discuss entrepreneurial behaviour in terms of individualism versus collectivism, assuming that some groups are culturally more inclined towards cooperation than others.²⁴ The author's own findings on rural entrepreneurs in South and Southeast Asia, indicate that these approaches are rather one-sided and that both cooperation and individualism are usually present within one group of businessmen or even within one and the same entrepreneur, although the emphasis might change over time. In order to substantiate this argument, the article presents three empirical case studies on rural capitalists in India, Malaysia and Indonesia.

Case 1

Joint-family Enterprises and Partnerships of Hindu Industrialists in India

The research was done on fifty-nine owners of small-scale industries in two villages of central Gujarat, west India.²⁵ The findings have shown the predominance of the joint family as a form of economic cooperation. The sample had eight nuclear and fifty-one joint families. Those families characterised as joint families consisted of members from three or more generations or had two or more married brothers and their unmarried children staying together. These members shared a common property and pooled together their resources for common consumption. Almost half of these joint families consisted of several households, each having its own kitchen, and staying in separate dwellings.

The institution of joint and extended family has made it possible to diversify their economic interests. Being part of a joint family has enabled the entrepreneurs to mobilise financial and managerial resources needed for different types of business operations. It is common therefore to find that within one family, one member manages the family lands, while another is a trader or industrial entrepreneur. By systematically diversifying their interests, these families create employment outside farming with the aim of slowing down further partition of the family's landed property. It is true that at some point in the future the nuclear family would separate out, but the process often helps in buying time to expand their enterprises—both in type and variety.

The predominance of the joint family organisation among the entrepreneurs in this region of India is not based purely on economic considerations. It is also strongly related to and based on an extended and inclusive notion of the concept of family. This notion of family involves recognition of mutual kinship obligations and expectations that often include a large number of relatives—in some cases even distant ones. The family—locally called *kutumb*—includes parents, married sons, their wives and children. The same also extends to include other relatives along the male line of descent, such as the family of the father's brother and father's sister.

This highly developed sense of joint-ness and family feeling is seen to be strongest among the thirty-four Patidar families. These families were initially agriculturists. The agricultural land had always played a great emotional role in tying the family members together. As a result, 'family-centric' behaviour and attitude has become an important characteristic of the members of this caste group. They were observed to idealise the advantages of joint ownership of property. However, for practical reasons, such joint families are bound to break up eventually. It was also observed that members projected the joint-ness to the outside world and put the blame on women members in case this joint-ness broke down.

Another phenomenon observed among men is their insistence that the division of property in the past took place through consensus. In reality, the actual division was often the final outcome of disagreement and conflicts, which often extended to many years. In most cases, conflicts came to the fore after the death of the patriarch (the father). The disagreement to the strongly authoritative relationship and the non-acceptance of the *motabhai's* (elder brother's) dictates in various economic as well as social affairs resulted in the breaking up of joint businesses too.

Cooperation in establishing and running an industrial enterprise was seen not always limited to members of the same family. In many cases even distant relatives and members of the same caste were seen to be involved. The research saw that in all the samples such relations played an important role in running the businesses. A large number of the present owner-managers profited from the assistance of relatives and others from their caste during the establishment phase of their business.

The sense of joint-ness thus not only explains the predominance of the joint family structure and the support extended by caste members in establishing and managing small-scale industries, it also partly explains the popularity of partnership as a form of their business organisations. Partnership

ventures were seen in forty-eight of the fifty-nine firms with an average of 3.5 partners per venture. In twenty-three ventures the partners were from the same family. The assets are divided legally to gain tax benefits. However, such divisions have virtually no consequences for the management of the enterprise. In the other twenty-five partnership ventures different families were involved, of which eleven had no blood relations.

The number of existing partnerships does not provide an adequate explanation to the importance of this form of cooperation as a factor contributing to the rise of industry in these two villages. This becomes further clear when one goes on to study the number of shifts in ownership and the ways in which many of the companies are associated through partners and ex-partners. An overview reveals that thirty-four of them have ties with one or more of the others in the form of partners or ex-partners. Besides three cases, in which only two companies are involved, there are three clusters of four companies inter-connected through partners and ex-partners. Particularly striking is a group of fourteen companies that are all connected with each other through ties between partners and ex-partners. Moreover, the preference among a large number of these families for operating in partnerships is not limited to their industrial activities, but also extends to their trade in agricultural produce, undertakings in other types of commercial ventures and their involvement in industrial firms outside the two villages. To a great extent these partnerships, too, are set up within the group of fifty-nine families:

Most entrepreneurs consider partnership as a viable option because of their simultaneous involvement in several businesses of diverse kinds, frequently in different sectors, which they may not be able to handle all alone. The need for a trusted associate as a partner thus becomes necessary. In addition, partnership also enables them to pool together large amounts of capital, experience, contacts and management potential. In most cases, these partnerships are with close relatives or families belonging to the same caste and sub-caste.

This aspect of uniformity in the social background of the respective partners and their families indicates that the partnership as a form of business organisation cannot be explained in terms of capital accumulation only. The dominance of partnership is also due to the strong sense of joint-ness and the extended notion of family. For most of these entrepreneurs, the establishment and management of trading and industrial enterprises is a relatively unknown activity that requires cooperation of a different nature and sometimes from persons who are outside the joint family. It is for reasons of trust and social control that they operate

through kinship and family networks, and hence prefer partnership with others having similar social backgrounds.

The entrepreneurs strongly and explicitly emphasise the kinship ties and family relations they share with their partners. To most of them, the partnership is as much a personal and family form of organisation as it is a contractual business arrangement. The Patidar caste are seen to be more prone to partnership within family and kinship than others. Their sense of status and preference to operate without assistance from outside the family makes them enter into partnerships within family relations. This emphasis on joint-ness is often carried to the extent of an ambition where the business is owned solely by members of his or her own joint or extended family.

This ideal of a family-owned business often leads to distortions when the history of their enterprise is discussed with persons from outside. In many cases, the owners try to conceal the fact that their company had originally been established in partnership with others from outside the family. In order to realise their ambition of a family-owned business enterprise, some of these entrepreneurs had actually ended an economically fruitful partnership with someone from outside the family, despite sound business reasons for staying together. The partnership was struck for bringing in the necessary contacts, technical knowledge and/or managerial experience. It is because of the irreconcilability between the reality of the past, and their overall emphasis on self-made or family-made achievement in business, that these entrepreneurs try to conceal such facts as the existence of partnership in the past.²⁶

In several cases it was observed that most entrepreneurs do not view partnership as a business arrangement only and difference of opinion concerning the management of enterprise sometimes takes place due to personal reasons. Although in most cases it was observed that division of property among siblings brings in bitterness due to some differences in the sharing formula adopted, they usually come together in a new social format. The recognition of mutual kinship obligations and expectations of assistance and support still survives in many families and business enterprises today, if only with diminished force. This aspect of fluidity and change in business structure is observed in most families. The exact organisation of their families and their firms is not a fixed entity but changes with time. It is not the survival of the joint family or business partnership which is important but the predominance of a type of family and business organisation that is characterised both by a kind of joint-ness, conflict and change.

Case 2*Family Enterprises and Business Networks of Chinese and Malay Entrepreneurs in Malaysia*

Studies on the recent rural transformation in the Muda area of north Malaysia have indicated the rise of a class of rural capitalists, consisting of large farmers, traders and owners of agricultural machinery and small-scale industries. Most of these studies indicate that there is a division along ethnic lines within this new capitalist class. While the economic behaviour of rural capitalists of Chinese origin is characterised by a tendency towards economic diversification and progress, the activities of the Malay entrepreneurs are confined almost exclusively to the agricultural sector (and are often less dynamic in nature). These differences in business strategy between Chinese and Malay entrepreneurs in the countryside of the Muda area are usually explained in terms of the implications of ethnic differences in family structure. It is argued that, compared to the Malay rural entrepreneurs, the predominance of extended family households and the division of property among a limited number of heirs only has provided the rural capitalists of Chinese origin better opportunities to accumulate capital, to increase their enterprises, and diversify their economic activities.²⁷

The author's own research on forty Chinese and Malay owners of combine harvesters in the Muda area of north Malaysia shows that ethnic differences in family structure partly explain the differences among the rural business class.²⁸ In terms of ownership, these entrepreneurs usually were seen to cooperate primarily with family members. The extended family is the predominant form of family structure among them. Seventeen of them, however, were nuclear families, consisting of not more than two generations—the father, mother and their unmarried offspring. The remaining twenty-three families had an extended type of family organisation. Thirteen of them lived in separate houses. These thirteen families had set up thirty-six independent dwellings carrying out various domestic activities such as cooking, washing clothes, etc., separately: they agreed to continue to share the responsibilities for their income and expenditure. Although these families live separately, they operate as a single family as far as their economic interests in combine harvesters, agriculture, trade and other activities are concerned.

This type of family arrangement is partly based on economic considerations. It enables them to increase their rate of surplus accumulation and follow a strategy of economic diversification. Since they are part of

an extended family, they are often able to mobilise financial and managerial resources needed for their business dealings. It offers a scope for amassing and transferring capital (by delaying the split) and enables different business activities to be distributed among the male members of the family.

Although cooperation within the family is characteristic of the majority of these rural businessmen, there are differences within the group that partly coincide with their ethnic background. Seventy-one families own these forty enterprises. The Chinese constituted fifty-one families owning 76 per cent of the total property. The rest were Malays. Of the most actively involved families in each of the companies, twenty-eight were ethnic Chinese while the remaining twelve were Malays. The predominance of the extended family households was seen to be stronger among the Chinese than among the Malay families. The ethnic Chinese had eighteen joint families, the Malays had only five. Twelve of these eighteen Chinese families do not live together under one roof, but still operate as one family in terms of income and expenditure, while only one of the five Malay families lives in this type of extended family household.

The establishment of business activities on unfamiliar ground is usually not undertaken by one family on its own, but in partnership with one or more other entrepreneurial families. In terms of ownership, twenty-seven companies are owned by members of one family who share common property and pool together their resources for common consumption. The remaining thirteen enterprises operate on a partnership basis. In the case of five such enterprises, the partnership consists exclusively of relatives, usually brothers or cousins who operate together in their combine business but form separate families with regard to other economic activities and expenditure. Four enterprises consist of a partnership with non-relatives, while the remaining four companies have a mixed partnership involving relatives as well as non-relatives. These partnerships are all of informal nature.

The number of existing partnerships at present does not in itself provide an adequate indication of the importance of this form of cooperation for the rise of these entrepreneurs. Looking at the business histories of the forty companies, there have been many changes in partnership over the years. Out of them, only thirteen operate in partnership at present. The importance of partnership as a form of economic cooperation is further shown by the fact that out of the twenty-seven present-day family enterprises, eighteen operated with partners in the past. This

means that out of the forty companies, thirty-one have at one time or another operated in partnership.

In these arrangements of partnerships, cooperation between families of different ethnic backgrounds is also not uncommon. At present Malay and Chinese families own six such enterprises together. Four of the exclusively Chinese companies and four of the exclusively Malay companies had a mixed Malay-Chinese composition in the past. Thus one can say almost half of the partnership units, fourteen out of the thirty-one, had operated in a mixed Malay-Chinese partnership. In addition, economic cooperation between Malay and Chinese families also extends to temporary partnerships for harvesting rice outside the Muda area. Especially with regard to tenders for harvesting on a large scale, Chinese and Malay owners often pool together their combine harvesters in a joint application. Although in some cases the Malay owners are used as front men so as to meet the government condition of Muslim participation, in most cases this economic cooperation has both the Malay and Chinese owners on an equal footing.

Notwithstanding the presence of various forms of economic cooperation that exist among the rural entrepreneurs in northern Malaysia one does notice very clear divisions that exist in terms of business behaviour between different groups. These divisions partly coincide with the distinction between Malay and Chinese entrepreneurs, as also the differences in life-style within the Chinese community. It is necessary to have clarity on the close interconnection between economic behaviour, ethnicity and life-style. This is important since it helps one to understand the differences in business strategy, among the two entrepreneurial groups and also among the entrepreneurs belonging to the same group. One does come across three ideal types of entrepreneurs—one Malay and two Chinese types. Let us try to understand them.

The Rural Malay Entrepreneurs They are found to operate mostly through their contacts within their own peasant community. They reside in the villages and spend their evenings with their friends and relatives. Their friends are mostly small or middle peasants. These friends and relatives help them in establishing contacts with brokers. For example, the larger Malay owners were able to establish first contacts with local Malay brokers in Perak State through Malay farmers from their home villages who had moved to Perak some years ago in search of agricultural land. This rural-based social life provides entrepreneurs the opportunity to invest their surpluses in agricultural and agriculture-related

activities. However, it limits the scope for investments outside the agricultural sector.

The Rural Chinese Entrepreneurs As in the case of Malay entrepreneurs, interconnection between economic behaviour and life-style is visible among the Chinese owners of combine harvesters also. Their family structure and inheritance practices have facilitated capital accumulation. A characteristic feature of some of these Chinese entrepreneurs is that they reside in the villages and operate through their contacts within their own community. It is through their local friends and relatives that these Chinese entrepreneurs establish their contacts with Malay brokers in the Muda area and in other states of Malaysia. It is this rural-based social life-style which provides them with contacts and opportunities to invest part of their surplus in agriculture-related activities, but limits their scope for investments outside the agricultural sector.

The Urban Chinese Entrepreneurs The economically most dominant and socially most visible group among the Chinese owners of combine harvesters shows a clear tendency to widen their economic activities and social networks away from their local agricultural base. In recent years several Chinese entrepreneurs in order to expand their scope of business have moved to small rural towns in the Muda area. Some have even moved to the capital city—Alor Setar. On the whole, their life-style is more conspicuous and outgoing. Contrary to their rural counterparts these entrepreneurs spend their evenings outside their homes, in the company of Chinese friends from all over the Muda region. These friends are usually businessmen with varied business interests, which include combine harvesters, workshops for agricultural machinery, small-scale manufacturing units and trading ventures. It is through these kind of networks that these urban Chinese entrepreneurs establish contacts within the business community in the Muda area and in other states of Malaysia. Many of the urban Chinese entrepreneurs make investments into purchases of combine harvesters and other agricultural tools and machinery. In recent times the urban contexts have also prompted many to divert a part of their surpluses to the non-agricultural sector. Some have established workshops and small-scale manufacturing units. This tendency of economic diversification indicates a transition from local, agricultural entrepreneurship to regional, industrial entrepreneurship.

In sum, the findings about the owners of combine harvesters in the Muda area show that the economic behaviour and life-style of the rural capitalist class are closely interrelated. The differences in business strategy only partly coincide with the differences between Malay and Chinese entrepreneurs. They are as much related to the differences within the Chinese community. It is the interconnection between economic behaviour, life-style and ethnicity that is essential to understanding the business strategy of the rural capitalist class in the Muda area today, especially with regard to their specific forms of economic cooperation and patterns of investment.

Case 3

Nuclear Families and Economic Cooperation Among Muslim Businessmen In Indonesia

A common thread that ran through the interactions of the author with 155 Muslim owners of small- and medium-scale iron foundries in a cluster of five villages in central Java, Indonesia, was the emphasis that they placed on independence.²⁹ A significant number of these entrepreneurs mentioned that they operate businesses independently and do not to make use of partnerships (of family or non-family) or other forms of cooperation in any field of activity. They also mentioned that such partnerships were not resorted to in the past. Many entrepreneurs claimed that they had made humble beginnings, without support from their parents or relatives. This claim to self-made achievement emphasises that Muslim businessmen do not make use of complex forms of economic organisation and mostly remain within their own nuclear family firm. Some of the iron founders were indeed first-generation entrepreneurs and came from relatively poor economic backgrounds. These first-generation entrepreneurs received no support from their families and friends in establishing their ventures.

This is however not the case with most entrepreneurs. Cooperation from within the family is an important aspect of the economic behaviour of these entrepreneurs. Around one-fourth of the entrepreneurs (forty-three families) lived in a sort of joint-family structure. However, the remaining 112 entrepreneurs lived in nuclear families usually consisting of husband, wife and their offspring. In most of these families it was observed that the children separated out soon after their marriages. The new family gets a share of the property and of the business too. The daughters too are given a share—usually up to half of that given to a son. These divisions of property and business have contributed a great deal

to the existence of so many iron foundries that are owned and managed by nuclear families.

The emphasis on independence and nuclear family firms placed among the Muslims in Central Java need not be misconstrued to mean that they were all self-made. Most of them did receive all the critical support in various forms—shares in land, factory building, and finance. It is a common practice among iron founders in Java to hand over their regular customers to one's children as part of the inheritance.

Transfer of knowledge and experience from relatives and friends also benefited many of the present day entrepreneurs. This kind of support during the initial phase, particularly in sharing orders and product marketing, came in handy and resulted in the establishment of and significant growth of foundries.

The sharing of orders among a set of entrepreneurs having a common origin often lasts long. In most instances these relationships are of subcontracting nature involving one larger foundry with several smaller enterprises. It has also been observed that subcontracting often has tied the entire cluster together. A larger iron founder holds the top position. This founder subcontracts his orders, provides working capital, decides the transfer of labourers and machinery, etc. The largest of such a cluster in these villages consisted of sixteen companies. The main company in the cluster dealt in manufacturing of larger-size pipefittings, an order it had received from several municipal corporations in Java. This company regularly subcontracted the manufacturing to the fifteen smaller iron foundries located in the villages. The company provided moulds, the needed raw materials and sometimes even labour. The finishing of the product was done at the main factory. This subcontracting is often a convenient arrangement resorted to by the larger iron founder, which relieves the larger company of the burden of labour management and absorbs fluctuations in orders.

The relations between these foundries were not just limited to businesses. The owners were related through blood and also through marriage. In a few cases the subcontracting was done with friends and with former employees too. One interesting observation was the existence of an *arisan* (rotating slate club) organised by a cluster of iron foundries for a socio-religious function. The members contributed a fixed amount every month to sponsor the pilgrimage of two of its members every year to Mecca. The smaller iron founders of the cluster also provided support to the political ambition of the owner of the leading company; partly as a result of their loyalty and that of their relatives and friends, this owner was able to occupy the position of chairman of the local cooperative society for fourteen years.

Relations of subcontracting are seen even among large companies and conglomerates at the national and international levels. Several of these relationships are part of the government's *bapak-angkat* (foster father) scheme, in which large companies are supposed to act as 'foster fathers' to a number of small-scale enterprises by providing them with financial, technical and marketing support. However, this relationship between iron foundries in these villages and national conglomerates had been in existence much before the introduction of the *bapak-angkat* scheme. The local iron foundries often are dependent on the other partners and hence sometime referred to as *anak-angkat* (foster child).

In most cases, cooperation in establishing and managing an iron foundry is seen in the form of assistance, advice and subcontracting; in other cases it is formalised in partnerships. Although most of the entrepreneurs emphasise their reluctance to form partnerships, there are several short-term and ad hoc partnerships among the iron founders studied. These include partnerships for the import of cokes from Russia and cokes and pig iron from China, and a partnership to acquire a large order for lamp posts for urban street lighting from the Sultans of Solo, Brunei and a Malaysian state. In almost all these cases, the partners involved are related to each other. This again shows that the establishment of forms of economic organisation beyond the family firm is a common practice among the Muslim entrepreneurs in this part of central Java.

These patterns of cooperation as seen both within and outside the family, do not imply that they are free from conflicts. Their social history shows the existence of various factions within the business elite. These factions are along family and geographical lines. In most cases these factions are often due to socio-religious differences. Moreover, it turns out that economic cooperation has always been an important mechanism through which these entrepreneurial families were able to improve their socio-economic position. The families belonging to the upper stratum of the society have achieved a more dominant position through networking and establishing entrepreneurial associations and cooperative societies, which have furthered their economic as well as socio-political interests.

The history of these associations and cooperative societies shows that the activities of organisations of entrepreneurs are not constant, but come and go depending on the need of the elite within the business community. Most collaborations were instrumental in the process of differentiation. Through these instruments the elites had been able to enhance and consolidate their economic position and social status. This has happened at the cost of small entrepreneurs and the labour class.

The social history of these iron founders thereby deconstructs the myth that Muslim entrepreneurs in Java are independent and self-made. It was also seen that those who are economically and socially dominant entrepreneurs had resorted to a wide variety of institutions—business associations and cooperatives to further their economic interests. These associations with family and non-family members have made the upper stratum wealthy and geographically more mobile.

Collectivism and Individualism

The findings of the three case studies in South and Southeast Asia show once again the untenability of the earlier views that the presence of family and wider kinship ties inhibits economic growth. Extended ties—within family and within similar caste and ethnic groups—have obvious advantages. They help in raising capital and maximising trust and loyalty. In the long term they help in succession planning and in motivating the entrepreneurs. Thus such family enterprises often play the most critical role in commercial and industrial activities in Asia. At the same time, these different forms of cooperation are characterised by changes over time and by conflicts among the entrepreneurs, which often result in divisions of property. Therefore, both collectivism and individualism, and the changes among them, characterise the forms of business organisation in all these three case studies, although the entrepreneurs belong to three different ethnic communities and operate in three different cultural contexts separated by geographical distance.

The emphasis by earlier scholars to obtain evidence of economic individualism among the Asian entrepreneurs as a mark of an emerging bourgeois class was partly based on the then current interpretations of European industrialisation.³⁰ In this reference, Goody argued that if

...so wrong about the role of family, caste and kinship in the development of commerce and industry in the East, is it not time to look once again at the empirical roots of these statements in their own political economy? ... Was there an ethnocentric overvaluation of their own achievements leading the West to insist on revolutionary systemic difference and upon categorical distinctions in a situation where the East was much closer to their own practices than they were ready to acknowledge? ³¹

In an earlier essay, the author too had shown how the notions about Asian entrepreneurs are partly based on assumptions about the origin

and nature of the early industrialists in Europe that are highly questionable.³² The findings from historical studies on the issue of collectivism and individualism explain the situation well.

Over the years historians have been able to question the popular view with regard to sources of capital of the enterprises of the early industrialists in Europe. The idea that many, if not most, industrialists were self-made men—which was a popular view during the nineteenth century—was found to be a myth. The economic and social historians of the twentieth century established the fact that very few industrialists during the Industrial Revolution had begun without capital, connections or support. Overall, the

Economic historians have not denied that, during that period, a number of self-made industrialists rose from poverty to great wealth, but they maintain that such spectacular successes were atypical and exceptional, while a large majority of industrialists came from rather well-to-do families, which could supply them with some capital to start in business and which also had useful networks of connections in their communities.³³

Most firms in Europe during the Industrial Revolution had started with small initial capital, which grew in a pre-factory manufacturing system of merchant-manufacturing activities, trading of industrial raw materials and finished articles. In many enterprises, capital from diverse sources was used. The common source was the small partnership—consisting of a group of relatives and friends. One also sees at times that even strangers were admitted as sleeping partners.³⁴ Studies have revealed that small artisan entrepreneurs who started their venture had obtained outside help. Some were able to collect enough capital to set up sizeably big enterprises.³⁵

Overall, however, external supplies of capital were 'less important than the personal or family funds which the industrialists scraped together and ventured in the new productive equipment. The power of heredity and the vitality of the family as an economic group stand out whenever we examine the history of the pioneer manufacturers' (pp. 416–17).³⁶ Payne shows that 'although the firms that were limited were by far the most important in their spheres of activity, judged by size of unit and amount of fixed capital, the vast majority of the manufacturing firms of the country continued to be family businesses in the mid-1880s'.³⁷ He even suggests that

...the over-representation of non-conformists among the *entrepreneurs who attained prominence* may be explicable not in terms of their

religious precepts, their superior education or their need for achievement, but because they belonged to extended kinship families that gave them access to credit which permitted their firms, and their records, to survive, while others, less well connected, went to the wall.³⁸

In order to expand and stimulate growth these pioneer firms borrowed capital. This was done through mortgages, bond or note of hand. In most cases this involved family members, friends, solicitors and attorneys, manufacturers and merchants with whom they had connections.³⁹ Charles Wilson emphasises that

the parochial character of industry seems to me to go on much longer than is usually supposed: perhaps it still goes on. A knowledgeable businessman could write in 1903 as if the spread in industry of limited liability was a recent thing, and about the same time a soap maker could write to a Bristol rival: personal knowledge of each other is a great factor in the cohesion of the soap trade.... He was only repeating what earlier makers had said: that 'good fellowship' in the trade was worth ten shillings a ton.⁴⁰

These economic historical studies together point at the variety of the sources of capital which had been used for establishment. It also contends that the first industrialists borrowed resources from their relatives and friends and this was on a personal basis.

The use of collective forms of business organisation has also been confirmed by studies on contemporary European entrepreneurs. An overview of some recent studies on small businessmen in Europe has indicated that mostly these enterprises were family affairs.⁴¹ The classic example of such flexible specialisation is seen in Italy's industrial districts. The mode observed consisted of a large number of small firms engaged in a highly specialised activity. These firms were interlinked through an elaborate relation of subcontracting. In this industrial district the entrepreneurs trusted and helped each other. The arrangements observed were both informal and formal. Although competition was vigorous, it was limited by moral norms enforced by the local communities.⁴² Thus one can say that in today's Europe too, collective forms of business organisation (family enterprises) and business networks are an important aspect of the business strategy of European entrepreneurs.

The major drawback of both the earlier and the more recent approaches to entrepreneurship in Asia, as discussed in this article, is that they are one-sided. They often analyse entrepreneurial behaviour either

in terms of individualism or in terms of cooperation. The basic assumption thereby is that some groups are culturally more inclined to cooperate than others. In contrast to the earlier views that emphasised the predominance of collectivism as the key factor to explain Asia's backwardness, the more recent notions stress the predominance of family and other forms of business organisation as one of the key factors to explain Asia's economic rise over the past few decades. Although it is too early to judge, it seems that the recent Asian crisis is already setting the stage for a return to the view that Asia's development has been impeded by family and other collective forms of business organisations. In these analyses, the origin of the Asian crisis lies partly in the inability of Asian businessmen to practise impersonal management styles in individual enterprises.

The findings on rural entrepreneurs in India, Malaysia and Indonesia presented above indicate the presence of both types of entrepreneurial behaviour within the same group. It is neither collectivism nor individualism alone, which can explain success or failure, but it is the flexibility of business organisations to adjust to changing social and economic circumstances that would explain the success and failure of any enterprise. These case studies also manifest a tacit contradiction between the actuality of cooperation among relatives and an ideology of individualism or collectivism. The Muslim iron founders of central Java, who claim to work alone and attribute their success to their own efforts, are untrue. Deeper investigation revealed that they do in fact engage in several forms of cooperation. The case study on Chinese businessmen indicates that sometimes they tend to overemphasise the use of kinship ties and *guanxi* relations while their day-to-day business operations often resemble little of these traditional ways.⁴³ It is important to realise that little is known about contemporary Chinese trading networks, their structural organisation and the effect of modernisation on them.⁴⁴ This therefore indicates that researchers need to be careful while taking proclamations of entrepreneurs at face value.⁴⁵

These findings are in line with studies done on European entrepreneurs. These studies have shown that both individualism as well as cooperation were responsible for industrial growth in Europe. Thus the common notion that Western economies are fundamentally different from Asian systems could be misplaced.⁴⁶ Several studies have confirmed similarities in entrepreneurial behaviour between Asian and European entrepreneurs.⁴⁷ Therefore, there is reason to argue that the notion of differences in forms of business organisation between Asia and Europe has to be reconsidered.

Notes

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27. Another important factor that is sometimes mentioned is the ethnic policy with regard to the agricultural sector. Various authors have indicated that the tendency towards economic diversification among the Chinese entrepreneurs is also stimulated by the Malay reservation legislation with regard to rice-growing land, which restricts the property rights of Chinese and more or less forces them to divert their economic interests, while it provides ample opportunities to the rural capitalists of Malay origin to reinvest their agrarian surplus in the purchase of additional agricultural land. For details, see Ikmal Said Muhammad, 'Household Organization and Reproduction of Large Capitalist Farms in the Muda Area, Kedah' (Ph D dissertation, University of Malaya, 1988); and Gillian Hart, 'The Growth Linkages Controversy: Some Lessons from the Muda Case', *The Journal of Development Studies* XXV-4 (1989).

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Terrorism and Rural Entrepreneurship in Punjab

GURPREET BAL AND PARAMJIT S. JUDGE

This article aims at describing the process whereby entrepreneurship among members belonging to a particular caste and religion emerged as a result of terrorism. Rural entrepreneurship saw drastic changes during the last two decades. The once dominant business class found themselves in a situation where it was difficult for them to operate. The subversive activities—a resultant of terrorism—created panic and induced many to close down their family run businesses and proceed to urban areas in search of safer environments. Their vacuum was filled up by the agricultural class, which as a result of the green revolution was economically emerging as an entity to reckon with. The Jat Sikhs were the beneficiaries of this revolution. Terrorism paved their entry into the domain of business. Using a case study methodology, the authors have documented the process as it happened in one village. The authors argue that similar situations could also be witnessed in rural Punjab as well. This article therefore points out the significance of political factors, which the authors argue, cannot be ignored in any study on entrepreneurial development. Similar situations are seen almost all across. The new social groups, as the authors put forth, do not observe the rules of the game. The process of intimidating the well-established social and economic groups from all walks of life through adoption of violence has become the order of the day. The authors are very critical of the disharmony and the imbalance that such processes will create.

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The existing empirical studies on the emergence and growth of entrepreneurship in India focus upon the significance of caste, region and religion in India.¹ In the West the 'achievement motivation' or 'innovations' are regarded as important variables in the growth of entrepreneurs. In the Indian scenario the traditions and cultural values of particular social groups are interpreted as the factors which to a great extent shape entrepreneurial activities.² Weber was one of the key proponents who considered religion as a facilitating institution promoting the growth of the capitalist economic system in Europe.³ However, it is India where the relevance of traditional factors has been highlighted. These factors are seen to be responsible for entrepreneurial growth. This

has prompted the authors to carry out a detailed examination of caste, religion and region in promoting entrepreneurship in India.

This article aims at describing the process whereby the entrepreneurship of members belonging to a particular caste and religion has emerged in Punjab as a result of terrorism. Theoretically speaking, it has been argued that political instability caused due to insurgency and terrorist violence might have facilitated the emergence of an entrepreneurial group which took advantage of the economic vacuum. The article provides a theoretical and empirical context of the study, followed by a detailed description of the reasons for the emergence and growth of terrorism. This is followed by a discussion on various dimensions of entrepreneurial change. The final section concludes with certain observations that have both theoretical as well as developmental insights.

Theory and Method

The theoretical perspective to understand the relationship between political instability and entrepreneurship is obtained from the works of Huntington.⁴ He argues that developing societies, as they go through the process of modernisation, experience political instability. The modernisation, as understood by Huntington, is not limited to an institutional process. It extends to that of the economic development of hitherto underdeveloped economies following the lines of the West. This process of modernisation has mobilised the traditional communities and has resulted in their aspirations for power and higher economic benefits.⁵ It has also been seen that wherever such communities had both political power and money, an attempt to further them or consolidate them was witnessed.

Historically, in India, it has been seen that entrepreneurship is monopolised by certain castes or regional communities—the Marwaris; Baniyas, Vaishyas.⁶ Ever since India gained independence one has seen the process of rapid modernisation and industrialisation. These entrepreneurial communities took advantage of these processes to consolidate their position both in business and in trade. However, the consolidation process did not remain restricted to these communities. The non-traditional communities, the agriculturists too, acquired wealth. In no time they started challenging the superior position of the traditional business communities. The state of Punjab is a classic example of such a process. The change however did not come overnight. There were certain factors responsible which have been discussed in the following paragraphs.

The green revolution, a strategy adopted to tide over the food grain crisis saw the introduction of an institutional as well as technical

process. The phenomenon was first experienced in Punjab during the second half of the 1960s. This agricultural programme brought in prosperity to both the big as well as well-to-do farmers of the medium category of land holders. Interestingly, most of the farmers hailed from the traditional cultivating caste—the Jat Sikhs.⁷ The affluence which resulted due to the higher level of agricultural productivity led to most of these farmers amassing huge wealth. Initially the wealth was invested back into agriculture—both into land and machinery. But there was a limit to which this was possible. Many of these farmers soon began to explore opportunities to move towards non-agricultural occupations. The process of shifting was through engaging in occupations which had some degree of linkages with agriculture—selling of spare parts of agricultural machinery and pesticides, and service stations. The Jat Sikhs soon moved into such non-agricultural occupations—as they saw an opportunity to use and possibly a semblance to what they already knew. Earlier, they found their entry into other business and trade a bit difficult as most of them were under the control of traditional trading castes—Baniyas, Khatri, Aroras and the Brahmins. The political disturbances in Punjab, provided these Jat Sikhs the opportunity to make entries into these restricted traditional bastions of trade and business.

This article has tried to gather empirical evidence from investigations carried out in village Butala, Amritsar district. The district of Amritsar was selected as it was considered the most disturbed district.⁸ Butala village was one of the most disturbed villages in the entire district. This village was also located amidst twenty other villages and was considered an important village from the trade and commerce point of view.⁹ This village was a hub for various trading activities in the entire district. Butala had a population of over 15,000 and provided a home to enterprises of a diverse nature.

The data collection was done by administering an interview schedule on entrepreneurs who established their business both during and after militancy in Punjab. The interviewees also included entrepreneurs who had left the village during militancy but returned to restart their business once peace was restored. A total of fifty entrepreneurs representing this diversity were interviewed.

The Punjab Crisis

The insurgency problem known as the 'Punjab crisis' started on 13 April 1978, when followers of Late Sant Jarnail Singh Bhindranwala clashed with the Nirankaris in Amritsar.¹⁰ This incident left thirteen persons

dead. Most of those killed were the followers of the Sant. This incident is considered by most as the incident that triggered the Punjab crisis. However, there were other reasons too. The Anandpur Sahib Resolution by the Shiromani Akali Dal demanding more powers and autonomy and the establishment of the Dharam Yudh Morcha in 1982 led by Sant Harchand Singh Longowal, were also considered as contributing factors to the militant movement. The wave of terrorist killings including those of Gurbachan Singh, Chief of Nirankari sect, and Lala Jagan Narain, Chief Editor of the *Hind Samachar* group of newspapers, which were carried out on the orders of Sant Jarnail Singh Bhindranwala, flared up the issue further. Militants holed up in the holy shrine masterminded the killings of prominent as well as innocent persons. Operation Blue Star to flush out terrorist from the Golden Temple premises in 1984 was perceived by the Sikh community as a humiliation. The aftermath of the assassination of Mrs Gandhi which flared up anti-Sikh riots in the entire country also hurt the ego of the community further. The Sikhs felt alienated.

The Rajiv-Longowal accord in 1985 and the assassination of the Sant did little to change the situation. The accord was never implemented. This was followed by the installation of an Akali ministry under the leadership of Surjit Singh Barnala. In 1988, in order to stem the escalating violence Operation Black Thunder was carried out to flush out terrorists from the premises of the holy shrine—the Golden Temple. The entire state of Punjab as well as a few other neighbouring states experienced varying degrees of terrorist violence between 1988 and 1992. It was only in 1992 that the state showed a decrease in terrorist activities. The elected government of Chief Minister Beant Singh brought in normalcy to the state.

During this one-and-a-half decade of political disturbance a large number of families migrated out of villages and cities to locations outside the Punjab state. Most of these migrant families belonged to the upper castes. These migrant families were mostly Hindus who were involved with small- and medium-level business and trade activities. The escalating violence imposed a threat to both the life and property of these Hindus and they chose to migrate out. The migrations led to certain significant changes in the economic life of these villages in Punjab. These are discussed and analysed in this article.

Entrepreneurial Changes

This section focuses on the entrepreneurial changes which occurred in Butala village. The discussion covers four aspects of the village: a brief

profile, militant activities, involuntary migrations and economic changes.

The Village

The people of Butala village trace their origins to Balabgarh (a place in Haryana) from where they migrated during the Moghul rule.¹¹ It was in the 17th century that the sixth Sikh Guru Hargobind Singhji had visited this village. Legends narrate the blessings of the Guru that led to the overall progress of this village. Education, migration, trade, commerce and business were some of the distinctive features of this village since the mid of the 19th century. This village had almost all the amenities of modern living—banks, hospitals, electricity, telephone and water works.

As mentioned earlier the village catered to the needs of twenty surrounding villages. The entire operation of trade and commerce was with the 'Sodhis' belonging to a caste called the Khatris ever since the early part of the 20th century. Around the late 1930s, the entire operation of business—dealings in grocery, cloth, jewellery and money lending was within the control of 250 to 300 Sodhi families. However, the Sodhis left the village largely as a result of their mobility to different areas of occupational life. A few Brahmin families who had migrated from nearby villages were also into trading. They owned horses and mules for transporting goods. Some of them also owned shops.

Castes have played a decisive role in this village particularly in the choice of occupations. The Khatris and Brahmins controlled business and trade, whereas the Jats were primarily involved in farming and other agricultural activities. The artisan castes provided specialised services.

The green revolution in the early 1970s provided impetus to trading. This was related more with the trading of grains. The rise in agricultural production increased the overall affluence of the agriculturists. The village community could be divided into two major segments in terms of their affluence. These were the Jat Sikhs—concentrating solely on agriculture—and the Hindus, carrying on trade and business in the village.¹² It is also interesting to observe the presence of some kind of overlapping between caste and religion and among caste, religion and occupation. The social construction presented the Jats as hard working, risk taking, and bearing the uncertainty of nature and the market. The Brahmins and Khatris were shrewd manipulators and were presented as exploiters of the farmers. It may be pointed out here that this social construction was not confined to this village only. As a matter of fact, this was an all-punjab phenomenon. Here the politically powerful farmers

played the most significant role. What is notable here is that the construction of the 'other' overlapped their religious identities.

Terrorists of Butala

The historical narration from people belonging to all walks of life bore one conclusion—the presence of harmonious and congenial relations between the Hindus and the Sikhs. This relation transcended their social and economic life for a long time. Irrespective of their religious identity the Hindus and Sikhs had cordial interactions in all religious, political and social activities of the village. Hindu families frequented the Gurdwara and so did the Sikhs. The situation saw a reverse trend with the dawn of terrorism. The village witnessed as many as twenty-two persons joining the holy war (see Table 1). The Hindus came under threat of life and property and subsequently migrated to safer places. The social profile depicts the overwhelming presence of Jats among the militants. Except for the three Mazbi Sikh and three Kashmiri Sikh Brahmins all others belonged to the Jat caste. Their profile also reveals that most of the militants were in their early 20s, unmarried (except two), mainly school educated and college dropouts. The Jats were predominantly agriculturists. Most of them were without any job/work and employment. The Mazbi Sikhs were engaged in some petty jobs. These youths joined the movement in mid to late 1980s. At the time of this study, only five were believed to be alive. The others were killed during counter-operations by paramilitary forces.

Involuntary Migrations from the Village

Since the majority of the terrorists were by caste Jats, the politics of economics inspired them. The Hindu traders bore the brunt of all terrorist aggression. The Hindu traders organised themselves and had police protection. However, this could not provide them adequate support. In 1985, an attack on a leading Hindu businessman resulted in the death of two local traders. This particular incident left the community shattered, disheartened and a majority of them sneaked out of the village in the darkness of the night. Subsequently others also followed.

Sikh businessmen also followed suit. They started migrating out as they were also frequently harassed. Terrorists extorted money in the name of giving protection. Finding themselves unable to meet these demands, the Sikh traders soon shifted to alternative places. They closed down their business before migrating out.

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TABLE 1
Social Profile of Terrorists

<i>Characteristics</i>	<i>Number</i>	<i>Percentage</i>
Males	20	90.91
Females	02	09.09
Age		
13-15	03	13.64
16-18	06	27.27
19-21	03	13.64
22-24	08	36.36
25-27	02	09.09
Caste		
Jat Sikh	16	72.72
Kashmiri Brahmin Sikh	3	13.64
Mazbi Sikh	3	13.64
Education		
Illiterate	03	13.64
Primary	01	04.54
Middle	03	13.64
Matriculation	12	54.54
College	03	13.64
Occupation		
Lawyer	01	4.54
Farming	04	18.18
<i>Pathi</i> (Reciter of <i>Gurbani</i>)	01	4.54
Mechanic	01	4.54
Vegetable vendor	01	4.54
Labourer	01	4.54
Unemployed	13	69.09

The information obtained through the survey revealed the migration of forty-six families from the village. Most of these families had been living there for a few generations. These families like other business families in India were bigger in size, having eight-ten members. Amongst the migrants, the Hindus constituted the majority, i.e., thirty-seven families. The rest of the nine families were Sikhs. The Hindus included twenty-four families of Brahmins, seven Khatri and six Suniars. The Sikhs included seven Jats, one each of the Khatri and Chhimba caste groups.

The main occupation of these Hindu families was trading/shopkeeping in different business lines. Besides these regular businesses, some of

them, particularly the Brahmins, had taken to agencies dealing in the trading of grains since the early 1970s. They functioned as commissioning agents. Some of them were also in service—schoolteachers (four), bus conductors (two), and village postmen. Khatri were exclusively engaged in trading activities. One Jat Sikh was in business whereas the Chhimba and Khatri owned shops.

The migration initially happened to 'camps' being run by the state in different cities. Pathankot was one such place where most of them moved initially. For both the communities, the other cities of Punjab—Amritsar, Jalandhar, Kapurthala, Ludhiana—were also safe destinations. Some Hindus moved out. They went to Delhi and parts of Haryana. Sikhs found foreign countries as their place of migration.

Economic Changes

It is appropriate in the context of the out-migration that took place to explore the economic transformation that occurred in the village. The attempt is to understand who emerged to fill the gap caused by the out-migrations.

Some of the major issues that one would be interested in include:

- What is the extent of the same traditional groups carrying on business?
- Who were these entrepreneurs?
- How and when did they join the enterprise?

The proceeding discussion is an attempt at finding answers to these questions. Both quantitative and qualitative data were obtained to understand these issues.

A Profile

Business as mentioned earlier was in the hands of the Hindus. Both the Brahmins and Khatri were predominantly occupying a significant percentage of the entire trade that took place in the village. The entire situation has now changed. Ninety-two per cent of the entrepreneurial activities are with the Sikhs. In the present context one sees the representation of diverse caste groups in various businesses.

The displacement of the traditional business community motivated a number of backward castes, specially the Tarkhan, Suniara, Chamar, Thathiar, Chhimba, Kumhar and Nai to take up these new positions. It was found that Jat entrepreneurs made higher gains and availed of opportunities

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TABLE 2
Personal Profile of Entrepreneurs

<i>Characteristics</i>	<i>Number</i>	<i>Percentage</i>
Sex		
Male	47	94
Female	03	06
Religion		
Sikh	46	92
Hindu	04	08
Age		
20-29	15	30
30-39	14	28
40-49	17	34
50 above	04	08
Education		
Primary	09	18
Middle	05	10
Matriculation	27	54
College	09	18
Caste		
Jat	22	44
Khatri	07	14
Mazbi	05	10
Kumbhar	05	10
Nai	03	06
Chhimba	02	04
Thattar	02	04
Others	04	08

more than others. Presently only one Brahmin and 14 per cent Khatri Sikhs are engaged in business activities (see Table 2). The Mazbi Sikhs—a Scheduled Caste group—controlled 10 per cent of the entrepreneurial activities. Women constituted a mere 6 per cent. They were also involved earlier. One common string that ran through the new entrepreneurs was their age, their educational and marital status. These new entrepreneurs are relatively young, mostly educated up to matriculation and are married.

In-Migration

The process of transformation of the rural economy opened avenues not only for a new set of people to take up the spaces formed but also opened

up the same for the entire region. Sixty per cent of the entrepreneurs who took up these spaces hailed from the nearby villages of Amritsar and Gurdaspur districts. The rest were from Butala. Two Khatri Sikhs migrated from as far as Amritsar for business. One of them had some association with the village in the past. He visited the village as a cloth vendor. The opportunities available in the village prompted him to settle here along with his brother in the mid-1980s. The entrepreneurs who migrated into the village from the neighbouring areas settled in the village along with their families. Around 43 per cent of them occupied the houses that were lying vacant due to the migration of Jat families. Interestingly, the rest 57 per cent commuted every day to their place of work. Let us look into some other dimensions.

Reasons for In-Migration

The major reasons that prompted outsiders to shift to Butala were the business opportunities and the new market that they could identify. The village had been the centre of trading in the past. For the first time it saw the Jats and the backward castes migrating and becoming active participants in trading ventures. This is an area which might interest sociologists, particularly to understand the factors that have contributed to the participation of other backward castes in business. These backward communities had some kind of links with business. The Chhimbas pursued tailoring and the Thathiar were engaged in utensil making as their traditional occupation. Thus one could conclude that the migration of the Other Backward Castes for business could be for availing the opportunity that got created and to fill up the void in the market.

Year of Migration

The in-migration happened at different points of time. The data reveals that two entrepreneurs moved during the 1980s, seven shifted during 1992 and 1994 and two others shifted as late as 1997. These migrants had no relatives or friends at Butala. It was their own motivation and determination to start the enterprise that prompted them to move in.

Entrepreneurial Activities

This section covers two dimensions—the period of starting enterprises and the return of the Hindu businessmen. The first dimension has its relevance in relating the entrepreneurial activities with terrorism. The

second dimension was prompted with the restoration of normalcy. Let us understand these two dimensions in detail.

Period of Starting Enterprise

It is interesting to note that modern entrepreneurs have replaced the traditional businessmen in the village. This new set of businessmen are from diverse caste groups, but they are all Sikhs. It is important here to know when these entrepreneurs made their beginning. Was it during terrorism or immediately after the returning of peace? The data reveals that 38 per cent of them ventured into business during the period when terrorism was in full swing. In fact a few of them bought over the business from Hindus at the time these Hindu businessmen were shifting out. Others became entrepreneurs only after the return of peace in the village. The chronology reveals 20 per cent started their business during the last two years, 23 per cent during two to four years and the rest 19 per cent between four to six years.¹³

Return of Hindu Businessmen

The sample included three Hindu businessmen. They were associated with business since the last fifty years and more. During the peak of terrorist operations they shifted out to safer places and when normalcy was restored they returned back sometime during the mid-1990s. It may be noted here that only a handful of the Hindu migrants returned back to the village. The Hindu business families carried out small little innovations of their establishments and are struggling hard to recapture their customers. Their emotional bond and their inability to establish business at an alien place prompted their return to Butala. A respondent remarked, 'business and trade depends upon one's traditional relations with the community and that is why I have returned amongst my own people'.

The businessmen who returned to Butala followed a very cautious strategy. They almost began from scratch. They opened up their old shop with relatively fewer items and made efforts to reestablish their social relations. Since these traditional businessmen have good acumen in business their dealings with clients help them recapture their clientele and they prosper in business.

Previous Occupation

The previous occupational profile (Table 3) shows that a majority of the Jat Sikhs hailed from families engaged with their hereditary

TABLE 3
Nature of Previous Work

<i>Nature of work</i>	<i>Number</i>	<i>Percentage</i>
Business	16	32
Unemployed	10	20
Studying	08	14
Service	07	14
Agriculture	03	06
Artisans	02	04
Working Abroad	02	04
Housewives	02	04

occupation of agriculture. With the rest the responses were somewhat different from what was expected. It is interesting over here to note that 22 per cent of them were already in some kind of business. The unemployed constituted 20 per cent, students 16 per cent, people in service were 14 per cent and the remaining 6 per cent were engaged in agriculture. The Sikh Jats and the Sikh non-Jats who were already into business were the first to fill the vacuum created due to the migration. Their exposure and experience helped them to establish enterprises. The young non-working Sikhs followed them. One can argue over here that possibly the migration of the Hindus was instigated and fuelled by the aspirant Sikhs.

Motivation

What actually motivated these non-Hindu and non-business community members to venture out into business is an interesting question. Was it the space that motivated them or was it something else? It was seen that for less than one-fifth of the respondents it was a hereditary or family business that they joined. These entrepreneurs introduced some modifications and diversification to their already existing business. It was seen that for the majority (70 per cent) the existing opportunities for initiating business and market availability were attractive propositions. These entrepreneurs were without jobs and this kind of opportunity made them venture out. The reasons cited by the rest included: finding business more profitable (4 per cent); business easier than agricultural activities (4 per cent). Only a handful (4 per cent) mentioned that they wanted to become entrepreneurs.

Construction of Shops

The rapidly expanding market and demand for business complexes and shops, made some enterprising people belonging to the Jat community (87 per cent) go in for construction of market complexes. These complexes had five to ten shops. These shops were made available on rent to those who wanted them. Opportunities for earning more came in handy for people who had land at strategic places. The rent varied from Rs 400 to Rs 500 for a shop measuring 120 sq. feet. This business provided another additional source of income for the small and medium farmer. The construction of such infrastructure made it possible for most of the new entrepreneurs to initiate their businesses in rented places. As many as two-thirds of them were doing businesses from such rented shops. One-third of the respondents had purchased land for shops from the Hindu Brahmins during the last fifteen years. Probing revealed that economic necessities prompted one-half of these sellers belonging to various caste groups—Brahmins, Jats, Chhimbas, Suniaras and Khatris—to sell their property to the emerging business class. In almost all such dealings the purchases were made at much suppressed rates.

Nature of Enterprises and Investments

The kind of business that these entrepreneurs ventured into reveals that 12 per cent of the Jat entrepreneurs started businesses having some association with agricultural activities. This included commission agents, repair and sale of machineries, spare parts, and trading in pesticide, seeds and fertilisers. The rest have taken up other diverse types of entrepreneurial activities.

It is clear from the data that entrepreneurship is associated with consumer behaviour. The selection of enterprises has been determined by the affluence and prosperity of the people. The opening up of a public call office, photography lab, music and cassette shops, electrical and electronic goods, tailoring, readymade garments, beauty parlours, hardware and sanitary stores, dealership in two wheelers, etc., catered to the rising needs of such enterprises in the area. The traditional grocery and general stores however, dominate the market. A total of twenty-three different types of entrepreneurial activities were seen to flourish in Butala.

The investment into these new ventures revealed that as many as one-third of the businesses were with investments of less than Rs 10,000. Twenty-four per cent had investment between Rs 10,000 to 90,000 and the rest 44 per cent had investments up to Rs 0.5 million.

Location

The post-terrorism era has seen significant changes in the business scenario in this village. The shops were initially situated in the front rooms on the ground floor of the house. Today there is a complete separation of the house from the business. Entrepreneurs today give prominence to the place and select those places which have easy accessibility to the clients—around bus stops, etc. Market centres have been constructed around such places. This village has an old and a new market. The 'new' market is considered more expensive and is devoid of personal, informal relations. The old market is reasonable and here the business-related activities are conducted on traditional family relations.

The data on entrepreneurship suggests that Jats have been economically empowered due to the forces unleashed by terrorism, though they were among the worst sufferers of terrorism in rural areas.¹⁴ Other Backward Castes come next in their success in availing economic opportunities. The Hindu businessmen in Butala have undergone severe psychological trauma, social displacement and economic ruin. However, in spite of the problems the Khatri Sikh businessmen bore, they emerged again when things returned to normalcy.

Some cases of individual business persons representing various caste groups support some of the above arguments. They deal with the issue of terrorism in Punjab and the development of rural entrepreneurship in general. These cases are discussed in the following sections.

Jats Amassed Wealth through Terrorism

During the days of terrorism the well-to-do families were targets of terrorist activities. These well-to-do families were made to dole out money for the cause. In such a situation people found it wise to hold back their expenses lest they become a target in the eyes of the terrorists. When normalcy returned this money came out into the open and had to be invested. This sudden spurt in investment in the post-terrorism era gave a boost to economic activities all around. Another dimension that went unnoticed was the unexpected gains for some families. Many of them gained because of the terrorists. The story of Mehnga Singh,¹⁵ a Jat Sikh depicts this gain. This marginal farmer had only two acres of agricultural land and another small piece of land on the main road. In spite of all economic hardships he managed to send his children—four sons and a daughter to school. During the early 1970s he managed to construct a boundary wall, a cattle shed, and a small shop on the piece of

land located near the road that linked Gurdaspur and Pathankot with Butala. During the days of terrorism his concern and sympathy for those pursuing the 'Sikh cause', made him provide shelter to the militants. The terrorists would hide weapons and extorted money in his house. This arrangement went on for quite a long time. In many cases these terrorists were killed in encounters and never returned to collect the money. It was in around the mid-1990s when the fear of militants disappeared and their deaths were confirmed that he started investing the money. He now owns five shops which he has given on rent, two tractors, and a newly constructed pucca house. His sons are also hard working and hence he is prospering. One does come across similar instances of villagers who have become rich overnight. During the interview one old lady had rightly remarked that terrorism had offered richness to the poor as well as to the rich. It is the Hindus who have faced bad and difficult times more than others.

Travails of Hindu Brahmins

Kishan Chand, a Hindu Brahmin had migrated to Butala from a nearby place for doing business sometime during the 1940s. His family included a son and six daughters. He was hard working and an enterprising person. He had earned the reputation of being the best grocer in the village. His daughters were educated and were employed. His son provided a helping hand to his business. He diversified to own a rice sheller, a petrol pump, and had a transport business with two trucks. Kishan Chand also ventured into becoming a commission agent and owned another grocery shop.

The wealth he generated out of such a diversified business portfolio made him a target of the militants. Initially he received phone calls, threatening shouts in the dark, and posters on his wall. This continued till 1985. The Hindus by then got organised to face the militants. It was in 1985 that a Hindu businessman from the village was killed by the militants. This incident demoralised the entire population and Kishan Chand decided to leave the village with his entire family. He went to some place in Madhya Pradesh to his cousin's place. He failed to put up a business over there and then moved to Haryana. Initially he sold off his petrol pump and the rice sheller unit. He found extreme difficulties in getting his daughters married. He sold off his house, his shop and the cattle sheds after the return of normalcy. These were sold off at throw away prices. A goldsmith, a Suniara by caste from the adjoining village, purchased his shop. The plot for keeping cattle was purchased by a

Khatri Sikh. Almost the entire majority of the Hindus faced a very similar situation and some of them got ruined in the process.

Pushed Back! Forced to Return to the Village

This case represents those families who were displaced from the village in the mid-1980s. These families could not establish themselves at alien places. Some families migrated to Haryana—the neighbouring state. Here also they faced discrimination as they were Punjabi Hindus. One such family of Paramvir, a Hindu Khatri finally decided to return to their native place after moving for fourteen years from one place to another. In 1999, Paramvir reopened his cloth shop that was started by his father some seventy years back.

Selling cloth was their hereditary occupation since the last three generations. Their hard working, polite and cordial nature brought for them substantial clientele from the surrounding villages as well. His elder brother managed a grocery shop. His third brother was assisting him. His grown up sons had opened their independent businesses in the market. His cousins were also into business.

In 1985, the militants planned to kill them. He had received warnings and threatening calls. As the reality of threat to their lives dawned, they out-migrated. They migrated to Yamunanagar (Haryana) and stayed at refugee camps for sometime.

After returning, Paramvir had to start his business afresh. His shop and house remained locked for almost fourteen years. A large part of his property got damaged, as they remained unattended for so many years. He has carried out nominal repairs after returning to the village and is presently trying his luck to weave back history and establish his old clientele and bring back life to his business.

The Suffering of a Leading Sikh Businessman

It is not that the Hindus only suffered. Somewhere during the phase of terrorism the emphasis shifted to people who had money. The case of a Chhimba Sikh, Sri Ram Singh, an old general merchant from Bitala village, depicts how even the Sikhs also felt the brunt of terrorism. He was into this trade since the last eighty years. His two sons had taken over the business and had introduced changes. The business diversified from cloth printing to stationery, which had all the latest items. The family owned a big modern shop and a big modern house.

The militants started extorting money from almost all communities and he was also expected to pay huge amounts for the militant struggle of Sikhs for Khalistan. Soon he found that things were becoming difficult as the demands for ransom kept on increasing. He initially stopped display of goods, withdrew expensive items, and finally closed his shop. Finally he decided to migrate to Jalandhar. In Jalandhar the family took up an agency of rubber footwear and also sales of other general goods. He was lucky to reestablish his business within a short period. In the early 1990s the family sold off the shop and the house to a 'Sodhi' family. The price fetched was pittance. Ram Singh presently does not intend to return back to his native village.

Conclusions

The article points out that the significance of political factors cannot be ignored in any study on entrepreneurial development. The political disturbances give birth to new social groups. In this case the Hindu traders were replaced by Jats—a predominantly agricultural group.

The present study also brings out a very disturbing socio-economic process that the country is currently undergoing. This is particularly in states where terrorism is on communal lines. Locked within the forces of traditionalism and modernity our Indian society is experiencing these painful transitions. In this transition, as Huntington points out, new social groups emerge with raised aspirations. What is unfortunate in this entire process is that these new groups do not observe the rules of the game; neither traditional nor the legal rational rules. These groups adopt socially undesirable means—violence, arson and riots to get rid of the well-established social and economic groups. This is evident in almost all walks of life—business being one such.

The article finally brings to fore that such anti-state movements often facilitate the process where only a small segment is able to reap benefits—often at the expense of a larger section.

Notes

1. T.A. Timberg's *The Marwaris: Traders to Industrialists* (New Delhi: Vikas, 1978); Amlendu Guha, 'Parri Seths', *Economic and Political Weekly* (Aug. 1970 and 21 Jan., 1981); Asghar Ali Engineer, *The Bohras* (New Delhi: Vikas, 1980); Carol Upadhyay, 'Culture, Class and Entrepreneurship: A Case Study of Coastal Andhra Pradesh', in Mario Rutten and Carol Upadhyay (eds), *Small Business Entrepreneurs in Asia and Europe* (New Delhi: Sage Publications, 1997); Gurpreet Bal,

- Development and Change in Punjab* (New Delhi: National Publishing House, 1995); V.S. Patwardhan, *Growth of Indigenous Entrepreneurship, Part I & II* (Bombay: Popular Prakashan, 1995); K.L. Sharma 'Community and Entrepreneurship', *The Eastern Anthropologist*, XXXXII-3 (1989); and Dwijendra Tripathi (ed.), *Business Communities of India: A Historical Perspective* (New Delhi: Manohar, 1984).
2. D.C. McClelland, *The Achieving Society* (New York: Van Nostrand, 1961). The crux of achieving societies lies in the extent of 'need for achievement' amongst its people. For the purpose, internal and external forces may be geared to enhance the achievement motivation of the people. B.F. Hoselitz, in *Sociological Aspects of Economic Growth* (New York: Feffer & Simons, 1960) suggests that certain values like achievement, universalism, specialisation and collective interests are required to develop any economy into an advanced economy. J. Shumpeter, in *The Theory of Economic Development* (Cambridge: Harvard University Press, 1934) argues that entrepreneurs are not a product of a community or group. They are randomly distributed in society. According to him, an 'entrepreneur' means anyone who undertakes new combinations and has command over resources. The profit is the reward for his 'innovative' endeavours. E.E. Hagen, in *The Theory of Social Change* (Bombay: Vakils, Feffer & Simons, 1962) regards rage and anxiety suffered by the people due to the loss of expected status as later leading to the emergence of 'innovative personality'.
 3. Max Weber, *Protestant Ethic and the Spirit of Capitalism* (London: Allen and Unwin, 1976). For him Protestantism was forward looking, encouraging, optimistic and inculcated the real spirit of capitalism.
 4. Samuel P. Huntington, *Political Order in Changing Societies* (New York: Feffer and Simons, 1968).
 5. Huntington, *Political Order* (no. 4 above).
 6. Gurpreet Bal, 'Communities and Culture in Entrepreneurship Development in India', *The Journal of Entrepreneurship* VII-2 (1998)
 7. Paramjit S. Judge and Gurpreet Bal, *Strategies of Social Change in India* (New Delhi: M.D. Publications, 1996).
 8. Harish K. Puri, Paramjit S. Judge, and Jagroop S. Sekhon, *Terrorism in Punjab: Understanding Grassroots Reality* (New Delhi: Har Anand, 1999).
 9. Puri et al., *Terrorism* (no. 8 above)
 10. Puri et al., *Terrorism* (no. 8 above)
 11. The information is based on interviews.
 12. The information is based on interviews.
 13. The data was collected in 1999.
 14. Puri et al., *Terrorism* (no. 8 above).
 15. For the sake of keeping anonymity of the respondents, their real names are not used.

What Role does Bargaining Power Play in Participation of Women? A Case Study of Rural Pakistan¹

KATINKA WEINBERGER

Participation strengthens the abilities and potential of poor people. However, various studies have indicated that women's participation is often hampered by several factors. This article analyses the determinants of women's participation in local organisations in the Pakistan-administered part of Kashmir. A focus of the article is to establish the centrality of participation in the empowerment of women. The author argues that women are not a homogenous group—meaning that strategies adopted to empower them would vary across regions, class and other factors. The article also highlights the role social networks play in furthering participation. Finally, the article puts forth the argument that participation is a complex process—a process whose outcome cannot be predicted. Factors like incomplete information, cultural, ethnic and economic restrictions often influence the decision-making process of women and hence have a bearing on the final outcome, i.e., empowerment.

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Introduction

'Participation' requires that poor people are able to take part in a process that strengthens their own abilities and possibilities. It is often regarded as a human right, allowing for equity and empowerment.² But desirable as it is, some studies indicate that poor women's participation can be compromised by several factors. One such study of 121 development projects concludes that the overall participation rate of women belonging to the most discriminated against groups in society is less than 20 per cent.³ Other empirical analyses of participation are few, although descriptions of the German Raiffeisen movement from the end of the 1800s suggests that mainly better-off farmers participated in this local savings and loan movement.⁴

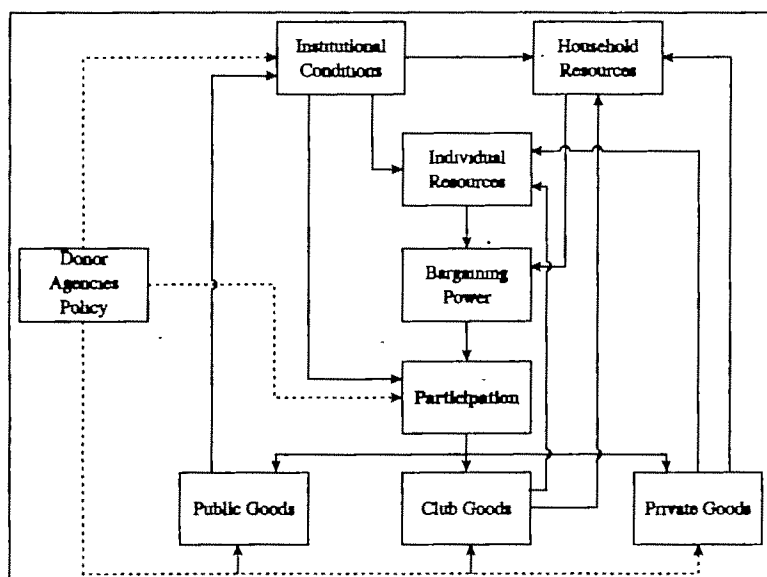
This article offers a rare empirical analysis of the determinants of participation in a present day Muslim society. The objective is to show how empowerment and participation are interrelated in Pakistan-administered Kashmir, a society where women traditionally only have a very limited role to play outside the confines of their homestead. Asking whether participation does take place across all social strata, the benefits and costs of participation are examined with a particular focus on poor women. The article is organised as follows: The first section offers an analytical framework for women's participation in local organisations. After a description of the data in the second section, the third section describes the Probit model and the results of the regression analysis. The last section focuses on costs and benefits related to the participation of women based on qualitative evidence.

What Determines Participation?

Approaches to the economics of participation in groups usually presume that individuals behave in an economically rational manner and choose utility maximising strategies. Two different approaches can be distinguished. One category of models, based on the work of Olson, is group-centred and argues that costs and benefits of participation are connected to the uncertainty that surrounds the behaviour of fellow individuals—possible cheating makes participation a risky option.⁵ In the other type, the decision to participate is based on an individual analysis of cost and benefit. Potential partners are considered insofar as they influence community norms, feeling of moral obligations, etc. In one such model of the costs and benefits of political participation it is assumed that participation will only take place if the expected benefits outweigh costs and the moral obligation felt towards participation.⁶ Building on this model, another scholar goes on to further distinguish between determinants on personal (e.g., interest) as well as on external levels (e.g., the communication system, and available resources) which influence the costs and benefits of participation.⁷

However, in analysing the determinants of women's participation, it is debatable whether models of discrete, individual decision making best describe the circumstances within which multiple interactive decisions are taken. Not all individuals in all households have the same access to human, capital and information resources, and not all members of a household necessarily pursue the same goals.⁸ It can therefore be argued that women's participation should be considered in a game-theoretic framework that sees participation as a function of bargaining power.

FIGURE 1
Factors Influencing Participation



Source: Author's design.

Figure 1 provides a framework that could be used for assessing the participation of women in any local development organisation. This framework provides allowance for both external conditions and individual characteristics to influence the individual's choice. While one can say that assets held by a woman would determine her bargaining power within the household, all assets belonging to a household would on the other hand influence the relationship between household and community thereby determining the probability of the woman to be invited by a group and offered membership. Institutional conditions too can determine participation. This includes perceptions of the social 'worth' of one group vis-à-vis another. Similarly, the legal framework, such as the freedom to get organised around an activity also plays an important role in the creation and success of community, and other institutions. Participation has been understood as an effective strategy in distribution of assets within any household. Goods produced under the aegis of an organisation will affect the bargaining power of each participant, while

also affecting the institutional setting of the community.⁹ Finally, participation also would depend on the policy of the donors. This extends from, what resources the donors bring, the goals the donors intend to accomplish and also on how donors introduce them to local decision makers. The case described below argues that it is the primary intention of the donors to strengthen organisational capacities rather than the resources it actually brings into the community.

In this model the bargaining power a woman possesses plays a central role in her decision to participate. However, their household characteristics and the institutional setting also influence such decisions.

An Asian Case Study

The Neelum and Jhelum Valleys Community Development Programme (NJVCDP) is located in the Muzaffarabad district of Pakistan-administered Kashmir. The programme operates in the valleys of the rivers Neelum and Jhelum. The programme, initiated in 1992, has funding support of the United Nations Development Programme (UNDP) and the International Fund for Agricultural Development (IFAD). The target area has 370 villages catering to over 40,000 households falling within an area of approximately 5,500 square kilometers. The project was initiated to improve the income and living conditions of the rural poor population through the strategy of developing the physical and human resources available in the region. The programme concentrated on production-related activities, which included agriculture, forestry and initiation of home-based small entrepreneurial activities. The formation of separate local organisations of males and females at the local level was a strategy chosen to make the efforts participatory and sustainable in the longer run. Around 370 such local organisations (LOs) having 8,000 households were functional by June 1997.

The data collection was done during the spring and summer months of 1997. In order to capture the different aspects of costs and benefits that materialise at different levels, three different units of observation were chosen—the household, community groups and the community as a whole. The author conducted interviews with nine groups and around 150 women participated in various group discussions. In addition, standardised interview schedules at household levels were used to obtain information about time allocation, income sources and assets held by women. This was done with seventy-four women members. In addition the study carried out community-level interviews with key informants which included the village chiefs and teachers. All information was

cross-referenced with staff-extension agents or local informants for validity.

Who Participates in Local Organisations?

It is true that all households within any community will not equally participate in activities initiated by the local organisations. Certain social and economic strata from the community will benefit more than others from activities initiated by LOs. Determinants like demography, life cycle and political characteristics will determine the levels of participation. The regression analysis done sheds some light on this issue. It is assumed that participation would depend upon household resources (such as time and capital), and its access to such resources (which partly determines each individual's bargaining power). It is thus established that participation (p) is a function of household characteristics (Z_h) and characteristics of the individual (Z_i), as well as of norms and rules at community level that affect collective action (Z_c). Furthermore, adding the average monthly cash income of the individual (Y) into the function incorporates the opportunity cost of time determined by the wage rate. Simultaneously, income (Y) is determined by participation, as income-generating activities are a project component of the programme. This results in the following two equations:¹⁰

$$Y = f(Z_h, Z_i, Z_c, p, c, v_1) \quad (1)$$

$$v = g(Z_h, Z_i, Z_c, y, v_2) \quad (2)$$

The results of a basic Probit estimation for determinants of participation are shown in Table 1. Two models are constructed. One includes metric measures of the wealth status of a household (farm area and small ruminants), and the other includes a categorical variable for the self-classified status of wealth of households. Model 1 indicates whether or not a linear correlation exists between the metric measures of wealth, while Model 2 shows whether or not a cut-off point exists.¹¹

The statistical validity of both models is supported by the log likelihood statistic. It indicates that the null hypothesis can be rejected at the 0.001 level or better for the first model and at the 0.01 level or better for the second model. The explanatory power of both models is very good.¹² With regard to the individual coefficients, in Model 1; six of eleven are significant at the 0.10 level or better. In Model 2, five of ten coefficients are similarly significant. The signs and magnitude of coefficients in both models resemble each other.

TABLE 1
Parameter Estimates for Participation

Variable	Model 1	Model 2
Constant	-2.003*** (-2.783)	-1.463** (-2.363)
Number of small ruminants owned	0.051** (2.468)	
Number of cattle owned	0.231* (1.762)	
Farm area logged, per household member	-0.509* (-1.836)	
Auto-selected wealth of household		
Poorer than average		0.377 (0.889)
Richer than average		-0.931* (-1.851)
Number of children in household	-0.074 (-0.864)	-0.164** (-1.965)
Ratio of preschool children to all children	-0.802 (-1.448)	-0.789 (-1.489)
Value attributed to education within the household	1.240** (2.541)	0.858** (1.981)
Density of organisations	15.550* (1.652)	21.125** (2.486)
School attendance in years	0.083 (1.087)	0.070 (1.104)
Member of other groups (dummy)	0.542 (1.368)	0.573 (1.520)
Predicted income	-0.030 (-0.999)	-0.006 (-0.266)
Log Likelihood	-24.016	-25.337
Chi-Square	36.77***	21.44**
Pseudo R2	0.281	0.248
Number of observations	71	72

Source: Survey data, 1997

Starting with variables referring to the household, both the number of *small ruminants* and the *cattle* owned per household have a significant and positive effect on membership. The logged *farm area* cultivated per household member is negatively correlated with participation. This last variable probably should not be taken as an indicator of wealth, but rather as an indicator for the source of income. Most households in

Pakistan-administered Kashmir, while engaged in some farming, depend on income sources other than agriculture, such as trading, craftsmanship and remittances from overseas. It can thus be concluded that households earning their main income from farming find it less attractive to participate in LOs, because the opportunity costs are too high or the expected benefits are too low. Possibly, women living in farming households are more obliged to participate in working activities connected to the farm than women from craftsmen's or traders' families, and do not have the time to participate. This is an interesting result, as agricultural activities are a focus of the project. The model indicates that wealthier households (in terms of asset ownership) have a greater interest in participation.

The explanatory power of the second model, which includes the categorical variable *wealth* instead of farm area/small ruminants/cattle decreases somewhat. Yet, those households who classify themselves as wealthier than others have a significantly negative probability to participate. The probability of households that consider themselves as poorer than the average household in their community does not differ significantly from the probability of the average household to participate. This, together with the results from the first model, indicates that a 'participation threshold' exists. It is the middle class for which participation in LOs is most attractive; a result that has also been seen in Chad.¹³

The *number of children* within a household has a negative, and in the second model, a significant effect on the probability of women to participate. This could be expected, because of the higher opportunity cost of time attached to childcare. Similarly, the variable expressing how many children of all children are of *preschool age* has a negative value in both models. A statistically significant and positive effect towards participation comes from the *value given to education*. Women living in households where all children of school age are actually sent to school, have a much higher probability of participating in LOs than women living in households where this is not the case. An explanation could be that women living in households that make every effort to educate their children find a greater value in having access to education.

As expected, the variable measuring 'social capital' in terms of the *density* of organisations within a locality has a significant and positive effect on the probability to participate. This suggests that the social capital stock within a locality, measured by the number of organisations, networks and groups, has a significant influence on both the ability and the decision to participate. Expected benefits of group membership are

regarded to be higher if a minimum level of trust and cooperation within a locality exists.¹⁴

Regarding individual characteristics, a variable that was composed as a *bargaining power index*, including issues on household decision making, namely on livestock, farming and children's education, had to be dropped because the variation was too little, as men usually took all these decisions. The remaining variable used to identify bargaining power, *formal school education*, while positive, has an insignificant effect in both models. These results are somewhat unsatisfying. Following a similar approach another variable was included in the model that used the *difference in education* between husband and wife to express the bargaining power of a woman.¹⁵ It is assumed here that bargaining power is greater if differences in education between household head and spouse diminish. While the effect on participation is positive, the variable does not render a significant effect on the probability to participate.¹⁶ In sum, the measurement issue of bargaining power merits more discussion and research. One such study done concludes that *none of these measures is perfect*.¹⁷

It has been established that if women participate in various *other formal and informal groups* then they will also exhibit positive probability of participating in LOs. The data analysis shows this to be insignificant. The negative effect of *income* on participation in both models is an interesting observation. It indicates that non-participating women have a higher opportunity cost of time. The reason may actually be that the opportunity cost of non-participating women is determined by their wage rate, while that of participating women is determined by the relation of wage rate to the value of all goods consumed—inclusive of those produced by participation. Participation in LOs could also be a reason to forego income, with the expectation that in due time, income will increase because of participation.

The analysis suggests that not every member in a community has the same chance to participate in local organisations. While participation in a LO may not be attractive for wealthier households (because they have other interests), the poor are largely excluded. The reasons for this are embedded in the fact that participation on the one hand is a costly proposition—particularly in terms of time and money—and on the other it carries with it a risk. Local organisations have shown that it has not provided opportunities to all sections alike. Participation had been limited to a particular strata thereby excluding the poor. For most poor the non-participation stems from the cost—mostly opportunity cost—which

the poor cannot afford. This has important implications particularly for developing policies where participation has always been regarded as a strategy to empower the marginalised through their active involvement in decision-making processes of any development intervention.¹⁸

Costs and Benefits of Participation

Both costs and benefits of participation can be both tangible as well as intangible. However, in terms of impact the latter seems to be more important.¹⁹ Individual discussions showed that many benefits could be explained by concepts framed under the heading of 'institutional economics'. Next came the opportunity of holding savings accounts in their own name (one-third of all answers given). Women accounted a value to the increase they experienced by way of enlarging their social contacts (21 per cent of all answers). Women also mentioned their increased access to information as a benefit they derived from the process (16 per cent of all answers given). Most of these benefits are particularly important in a society where women are usually confined to their homes without the satisfaction of these strategic needs. Their participation as such must be thus regarded as a form of institutional innovation. This has a positive effect. The improved access to information often reduces cost and thereby leads to a reduction of transaction costs. The value attributed to these emphasises the increased role of social capital building, which has been possible due to participation and collective action.

At the group as well as at community level it was established that local organisations are a place where information, ideas and knowledge are exchanged. One also sees the specific role the local organisations play in the empowerment of its own members. In open group discussions it was established that membership and participation has resulted in women receiving more respect, women developing the capacity to participate in discussions, and most importantly the change in their relation to men. In addition the discussion also yielded impacts in terms of women becoming more aware of their problems. Many also mentioned that women are now more active than before. In a similar study it was established that LOs have been agents of change as regards to making women becoming aware about their rights.²⁰ Improving and strengthening the position of women and changing social norms by getting together was also highlighted. Women mentioned that LOs have made it possible—*hand in hand*. Thus it could be assumed that on the one hand individual bargaining power may not determine participation but on the

other the participation will positively affect the position of women within a community.

The individual interviews with women members and non-members showed very similar results. The women members of LOs mentioned two constraints that came in their way to participate. Time constraints (29 per cent) and financial problems due to regular saving requirements (19 per cent) were highlighted as reasons that were obstacles to them. It was interesting to note that 27 per cent of the sample maintained that they faced no obstacles. The data obtained from non-members included time constraints (32.5 per cent), financial reasons (24 per cent) and, lack of information (21 per cent) as factors preventing their participation. The lack of information could be due to higher cost of searching information or it could be that information is withheld deliberately. In the study area this may primarily affect the members of certain castes only. Information asymmetries may be created deliberately, due to heterogeneity and lack of trust among distinct ethnic and social groups. An analysis of the different causes for not participating among women of different wealth groups showed that poor women are mainly hindered by financial causes, rather than their lack of information. In another study a similar instance was also observed.²¹

One cost factor that could be observed within groups is that of a reinforcement of unequal power relations. Within groups it is common for a small group of the same individuals to benefit repeatedly from activities to the exclusion of others, such as training. Econometric analysis has shown that poor households have a lower probability of participation. While these results do not allow for the conclusion that certain groups of individuals, especially poor people, are systematically excluded from participation in local development groups, they do show that poor households, more than others, do not participate because they cannot afford to do so.

Conclusions

Participation is a complex process. Many factors influence the decision-making process of women, including incomplete information, cultural, ethnic and economic restrictions. As a result, costs and benefits of participation vary according to specific community, group and household characteristics, not just individual decision-making parameters.

The empirical analysis offered four different and interesting results. First, regression results as well as group discussions indicate that the

opportunity costs for the poor to join group-based projects are high. This leads to a 'middle class effect' in which the cost-benefit ratio of participation is negative both for wealthier and poorest households. What is more, some groups have no interest in seeking the participation of the poorest people since they cannot contribute in financial terms and also that their risk to the group is too high. These findings have important policy implications. Donors should be aware that it might be very difficult, or even impossible to reach the poorest part of the population via participation in self-governed community groups. In order to reach the poorest the costs and risks of participation have to be reduced. However, it remains questionable whether this can be achieved through a programme design.

Second, the opportunity costs of participation are high for income earning women. While it is perhaps surprising that the effect of income is negative on participation in this case, one explanation might be that all of the visited groups are quite young—participation in terms of higher earnings may only begin to pay-off after programmes have been established. These results suggest that one needs to be sensitive to the issue of membership in such group-based activity particularly in the initial phases of project group formation. This does have a direct bearing on the policy of donors. The risk associated with participation is high for the poor since members have to forego some immediate income. This has been established as a barrier in enlisting participation of women. If the inclusion of poor members is a policy goal, measures such as financial compensation, etc., could be considered.

A third point reveals the important role an existing social network could play in determining participation. This is emphasised by the strong positive effect of organisational density within the community. The expectation of beneficial effects of networks seems to be higher when experience with group membership exists. For the establishment of group-based projects this implies that a careful analysis of the situation in the project area with a focus on activities of other groups is essential. However, one does also often see regions having very poor spread of such networks. Maybe in such circumstances the establishment of group-based projects might require intensive thinking on ways to create a trustful environment in which group actions could take place without hindrance.

Finally, the assumption could not be established that prior bargaining power of members decides their participation. However, if not an important determinant, it is a weighty result of participation. Improving and strengthening their social and economic position thus could be an important reason as to why women get together for collective action. This is often

accomplished in a short period of time. Therefore, the empowerment aspect of participation cannot be simply overlooked. However, given the probability of participation is not the same across the different strata of the population, it has been emphasised that empowerment will never come on its own. It will require a stable economic and social environment.

Overall, the most important conclusion one could draw upon is that women should not be treated as a homogenous group while planning any development intervention. Their needs and opportunities differ markedly in respect to their different background, their household resources and their physical location. 'Women' are not simply to be taken as another category next to 'farmers', 'small entrepreneurs' or 'the poor'. They may be all of them—or none—and their desire and ability to 'participate' in development would thereby vary accordingly.

Notes

1. Financial support for this study was granted by the German Academic Exchange Program (DAAD) and is gratefully acknowledged.
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8. B. Agarwal, 'Bargaining and Gender Relations: Within and Beyond the Household', *Feminist Economics*, III-1 (1997), and L. Haddad, J. Hoddinott and H. Aldermann (eds), *Intrahousehold Resource Allocation in Developing Countries* (Baltimore: The Johns Hopkins Press, 1997).
9. The goods produced in local organisations can be classified into public, club and private goods, depending on the main beneficiary of the good. Private goods are goods with a private character (such as credit and saving facilities provided for the members), while club goods are available for all group members, such as information networks. Public goods are produced for the whole locality (i.e., a public well).
10. For details on the two-stage procedure applied, see K. Weinberger, *Women's Participation. An Economic Analysis in Rural Chad and Pakistan* (Frankfurt: Peter Lang, Diss. 2000).

11. The level of women's monthly cash income must not be correlated to the wealth status of her household. This is confirmed by a correlation analysis between the Instrumental Variable for income and both the categorical wealth measures as well as the numeric variables for household assets. For details see Weinberger, *Women's Participation* (no. 10 above).
12. Because R2 Probit and Logit estimation is based on the log likelihood, it is generally lower than in ordinary least square estimations.
13. Weinberger, *Women's Participation* (no. 10 above).
14. Weinberger, *Women's Participation* (no. 10 above).
15. L. Haddad and J. Hoddinott, 'Does Female Income Share Influence Household Expenditure Patterns? Evidence from the Côte d'Ivoire', *Oxford Bulletin of Economics and Statistics*, LVII-1 (1995)
16. Weinberger, *Women's Participation* (no. 10 above). Results are described in detail.
17. A. Quisumbing and J. Maluccio, 'Intrahousehold Allocation and Gender Relations: New Empirical Evidence', IFPRI, FCND Discussion Paper, Washington, D.C. (1999).
18. World Bank, *The World Bank and Participation* (Washington, D.C.: The World Bank Operations Department, 1994); and M. Esman and N. Uphoff, *Local Organizations. Intermediaries in Rural Development* (Ithaca and London: Cornell University Press, 1984)
19. Weinberger, *Women's Participation* (no. 10 above), shows that no significant impact of participation on women's income can be identified.
20. N. Folbre, 'Gender Coalitions: Extra Family Influences on Intra Family Inequality', in L. Haddad, J. Hoddinott and H. Alderman (eds), *Intrahousehold Resource Allocation in Developing Countries*, (Baltimore: The John Hopkins University Press, 1997).
21. Weinberger, *Women's Participation* (no. 10 above).

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Entrepreneurial Policies and Strategies The Innovator's Choice

OBS for Social Transformation

MATHEW J. MANIMALA

....this book is an embodiment of knowledge and a spark for multi-directional research in the field of 'entrepreneurship' as well as 'intrapreneurship'. This book can also serve as a further step in the paradigm building in entrepreneurship theory.

Economic and Political Weekly, 25 November 2000

This book is an original and comprehensive work of research on entrepreneurship. It is an important contribution on the subject, and the work is certainly among the most rigorous management research done in India.

The Financial Times, 10 September 2000

While there is a considerable body of literature on both entrepreneurship and achievement motivation, there are still many unanswered questions concerning these phenomena, and the psychological traits and motivation of high achievers. This book is a fresh and unusual study of the phenomenon of entrepreneurship focusing on the innovators' heuristics. It is based on first-hand observation, interviews, published case studies and an exhaustive literature survey. It provides a novel theoretical perspective on the strategies and policy orientations of new ventures.

This book will interest academics, practitioners and policy makers in the fields of entrepreneurship, economic development, management of innovation, industrial psychology, human resources development and organisational research methods.

CONTENTS: *List of Tables/Foreword by PRADIP N. KHANDWALLA/Preface*

1. New Venture Policies and Strategies: Relevance and Significance
2. Methodology/3. The Pioneering-Innovative Entrepreneurial Venture/4. Entrepreneurship: Situational Determinants versus Strategic Choice
5. Policies, Strategies and Heuristics/6. New Venture Strategies: High and Low PI Groups/7. Entrepreneurial Orientations/8. Entrepreneurial Innovator: The Empirical Concept and Its Linkages with Heuristics/9. Entrepreneurial Subtypes/10. Conclusion/Appendices/References/Author Index/Subject Index/About the Author.

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Also from Sage

Patterns of Work Culture Cases and Strategies for Culture Building

JAI B.P. SINHA

Professor Sinha's book bears the unmistakable stamp of a seasoned scholar in field-based research on work psychology. There is so much to learn from his works in this genre.

Journal of Human Values 7:1 (2001)

Sinha's tome is an invaluable addition to the growing literature on the current management-related problems....Most importantly, it gives both employers and employees plenty of food for thought and a benchmark for self-assessment.

The Tribune, 26 November 2000

Sinha's treatise is refreshing in its inquiry and opening up new avenues in the pattern of work culture of smaller enterprises.

Business Line, 29 January 2001

In an increasingly competitive and globalised business environment, organisational effectiveness depends heavily on the commitment and involvement of employees, and the centrality of work in their lives. Organisations which care for the well-being of their employees and proactively draw on societal resources are able to cultivate such a work culture in their employees. In this book, Jai B.P. Sinha continues his exploration of an area of research that has come to be closely associated with him—work culture in formal organisations. This study stands apart from his earlier work because it focuses on medium-size enterprises on which there is scant literature.

Providing valuable insights on the work ethos and the organisational milieu of enterprises, this accessible and lucid book will attract a wide readership in the areas of organisational behaviour, social psychology, management and human resources development, while being of equal interest to practising managers and entrepreneurs.

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Patrick Heller, *The Labor of Development: Workers and the Transformation of Capitalism in Kerala, India*, Ithaca & London: Cornell University Press, 1999, pp. 277.

The nature and extent of social development in Kerala, despite its low economic position at the all-India level has been extensively researched and debated. It is a shining example of what can be achieved through the state's active intervention and civil society's participation in the overall quest for well-being. In *Labor of Development* Patrick Heller makes a conscious departure by examining the democratic process through which labour is given an important role through mobilisation to play in the developmental process in the state. In much of the Western world democracy as a political arrangement arrived more or less simultaneously with the development of capitalism. But it left a yawning gap between civic equality and economic inequality intact. In other words, formal democracy does not in any way affect class exploitation and it fails to bring about realignment of social relationships unless a conscious effort is made in this direction. It has to be programmatically placed and implemented.

Heller demonstrates in this book how through a long drawn out process of social movement and class mobilisation a democratic structure is constituted from below and in the process led to the transformation of the agrarian economy from the pre-capitalistic mode of production to the capitalistic mode of production. The book is divided into two parts. In the first part, consisting of three chapters, the mobilisation of agricultural labourers and their integration with the agrarian economy through land reform is traced. The second part (consisting of four chapters) traces the effort in articulating the organised labourers engaged in industrial production and various unorganised labourers employed in the off-farm sectors. Heller points out that because of 'dis-articulated development' in the third world uneven transformation of the economy coexists with 'different sectors and even different modes of production' (p. 24). This, together with a democratic structure, though resilient enough to accommodate various class interests, proved to be incapable of integrating class-based demands of promoting redistributive reforms in India apart from in Kerala and in West Bengal. In order to understand the nature of the mobilisation that made the redistributive

reforms possible, according to Heller, it is necessary to examine the complex interaction between social structures, various formal institutions that have been built and the dynamics of the social process that is generated. 'Dissecting development state requires focusing on the complex configuration of institutions and political practices that mediate the relationship between societal interest and state action' (p. 26).

The social reform movement generated in 1930 helped to weaken cultural dependence and an abject form of servility of the working class and thereby promoted mobilisation of the poor. First it was a struggle against the means of dominance rather than for the transformation of the means of production. The election of a communist-led government in 1957 marked the beginning of agrarian transformation. In one full sweep it transferred the ownership right of land from the rent collecting landlords to a class of small peasant proprietors. The next important step was to secure through unionisation of various forms of rural occupations, including the occupations of toddy tappers and *mahouts* (elephant drivers), the rights of wages commensurate with their nature of work. 'The ballot box, industrial relation committees, legislative enactments and governmental committees all became the new loci of class struggle in which the power of the propertied were leveled' (p. 85). This also led to the transition from pre-capitalistic social relationships to capitalistic social relationships in which, unlike Europe, the former tenants and agricultural labourers played an important role. Through a detailed examination of the process of wage negotiation within different agrarian structures that was historically constituted in Palghat and Kuttand regions of Kerala, Heller highlights the complexity of the process involved and the dynamics of the social process it generated. Not in all areas did the landlords and the propertied class give in readily. They changed from rice to commercial crops like rubber, coconut and spice plantations in order to deny the labourers the fruits of agrarian changes. The problems of segmentation of labour markets, uneven wages, demand overloads and their impact on economy are examined. Heller rejects the theory that labour movements led to stagnation in agriculture production and hampered the developmental process. Instead he is of the opinion 'that dramatic shifts in the relative prices of crops played a much more decisive role than wage escalation'. Another interesting aspect of Kerala's success in agriculture is the role played by the primary agricultural societies. The Primary Agricultural Cooperative Societies (PACs) have a high level of savings and low level of overdue loans compared to other parts of India. This has been made possible,

according to Heller, due to the high competitiveness in the political arena creating institutional legitimacy of the PACs, high level of literacy, and direct community participation.

Ironically, the industrial sector in Kerala has remained backward despite a highly disciplined labour force. While the production base has remained underdeveloped the social relation of production has been transformed. Despotic management practices have been replaced by a sophisticated industrial regime resilient enough to adopt class compromise. Mobilisation and the act of bringing together various organised and unorganised labourers under the umbrella of unions resulted in narrowing the gap in wages between the two. It also forced the adoption of modern management techniques and an industrial reconciliation process unique to Kerala where the 'brokerage' role of the union leaders and the politics of 'fragmented incorporation and appeasement' on the part of the government have been kept to a minimum. Instead of the role of a pretender government the state government in Kerala functioned as a facilitator of labour development and played the card of a class compromising corporate strategist. The productivity in Kerala is one of the highest in India. But despite this if the underdeveloped nature of the industry remained, Heller points out, the problem lies in the nature of the capital and the political structure of the union government. They have been more labour squeezing organisations than labour developing ones.

Throughout the book Heller adopts a macro framework. The work is based more on documents and interviews. The problem of forging a class and caste alliance, gender, and the various strategies adopted by the propertied class like segmentation, individualisation and the response of the labour and unions to such devices have been glossed over. Admittedly, the framework of the book precludes such treatment. We wait for such a work in the future.

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John T. Mentzer (ed.), *Supply Chain Management*, New Delhi: Response Books, 2001, pp. 524.

Supply chain management (SCM), as an after thought is so obvious yet seen so rarely in practice in the developing countries. After all, it

presupposes enlightened self-interest, rare in most cultures, least of all in the no-holds-barred competitive business culture. Logistics can be integrated only on the basis of enduring trust and commitment. The authors attribute the original idea to Forrester as early as 1958. This needs to be integrated into the concept of corporate governance, which along with SCM is the critical need of the globalised and liberalised economy. If corporate governance is all about ethical and legal ways of satisfying the direct stakeholders and the society, SCM is all about efficiency, networking and value addition at every stage.

There is very little literature on SCM in India. The book edited by John T. Mentzer fills a critical void. The book has drawn on the expertise of different authors in the areas of marketing, sales, R&D, forecasting, production, purchase, logistics, InfoTech, finance, coordination and measuring performance as applied to SCM. Corporations have turned increasingly to global sources for their supplies. United States retailers are outsourcing as much as a billion dollars worth textiles and handicrafts from India and this is just the tip of the iceberg. The competition is no longer among companies but supply chain networks. The more efficient chain reaches the consumer faster with defect-free products overcoming imponderables of markets, economy and technologies. The authors identify the interlocking of information, materials, money, manpower and capital equipment across firms as the essence of SCM. It is the solution to the conflict between high customer service and low inventory and cost. It is a strategic collective decision process. It is a management philosophy and convergence dedicated to enhancing customer value.

The authors list integrated behaviour, sharing information, sharing risks and rewards, cooperation, customer focus, integration of processes and building partnerships as SCM activities. Among them the flow of information is the most important. Cross-functional coordination becomes easy when there are compatible cultures and management techniques. Supply chain management requires partners to build and maintain long-term relationships. Trust is the basis of contracts but goes far beyond.

A shared vision and enlightened voluntary leadership is needed for SCM. Customer value and satisfaction is enhanced by SCM, and thereby the competitiveness and profitability of the chain members. Putting it all together, the authors define SCM as the systemic, strategic coordination of the traditional business functions within a company and across businesses within the supply chain for the purpose of improving the long-term performance of the individual units and the chain as a whole. The various chapters in the book examine the global environment, the

traditional business functions and managerial issues from the perspective of the SCM rigorously.

The supply chain response to globalisation is to integrate networks to achieve economies of scale retaining the ability to respond to local markets, sharing the skills and capabilities developed worldwide, and participative decision-making. The authors describe in considerable detail the processes involved in the context of globalisation like strategic fit and management of risks, knowledge, relationships, finance, technology, channels and, above all, information. The global SCM strategies of the Digital Equipment Corporation led to a reduction of the number of manufacturing facilities from thirty-three to twelve and production and logistics costs by \$367 million. The supply chains have to be flexible to respond to risk monitoring. A global firm maintains a department dedicated to customs and taxation as part of its risk management strategy. But no strategy can ignore the underlying behavioural processes.

The supply chain is a complete system delivering customer value, which in turn is not inherent to the products or services but lies in the perception or experience of the customer. As this varies across customer segments the firm will have to match its capacity to the expectations of its key customers. Supply chain management is about competing on value, not on power. The sum total of the competitive advantage of the chain is crucial to significantly increase the size of the cake. A useful distinction has been made between customer value and customer satisfaction. Value arises in comparison with the standard the customer has in mind (also influenced by what the competition offers) while satisfaction is the experience with the product. The value provides the direction to the supplying firm and the satisfaction is the feedback on its efforts. For the intermediate customer the value lies in his success with the product. The authors remind us, that as in any other business decision, cost benefit analysis is equally relevant to SCM from the point of view of the individual firm.

If the marketing is all about creating customer value for profit relationships, marketing is right in the middle of SCM. Relationship marketing is a conscious way of developing, maintaining and enhancing inter-firm relationships. Successful SCM is sharing the vision and plan everywhere keeping the customer in focus and pushing to the frontiers of efficiency and effectiveness all the time. Sharing vital market information has to go beyond the boundaries of the firm to the chain that is possible only with close and long-term non-exploitative relationships; and this is the challenge of SCM. The sales function cements the customer into the supply chain managing relationships and identifies

value addition opportunities for the entire chain. The authors have taken pains to describe how it is all done. The extensive coverage to collaborative new product development through inter-firm R&D, the road map to sales forecasting for the chain, the production philosophy and management for reduced volume cost with increased efficiency including dispersed production and build-to-order schemes offer insights into supply chain managers. The supplier is now part of the firm's competitive strategy. Table 9.1 describes the evolution of supply management from the traditional to the strategic, managing the risks better all the way.

The chapter on evolution and growth of information systems emphasises the importance of intrafirm and interfirm information systems. By developing relationships with members of their supply chains, firms develop efficient and effective information systems that facilitate better supply chain integration through the Internet. While personal memory can substitute for managing proprietary firms, elaborate systems are needed to integrate data and help decision-making. Enterprise Resource Planning (ERP) systems tie up all the process-driven information systems into one. The chapter proves the point that the appropriate use of information systems could greatly enhance the competitive advantage.

Limitations of space act as a constraint on doing full justice to the extensive coverage of the book. It provides a broad and rigorous theoretical framework for SCM orientation and as such is a very valuable addition to the relatively scarce literature on the subject. The executive summary at the beginning of each chapter and the conclusions at the end make it easy for the busy reader to zero in on what he wants to read. Charts and flow diagrams give the readers a visual picture for easy absorption of a difficult subject. Yet the practitioners would be dying to know how it is all done with the help of case studies, even if made up.

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D.B.N. Murthy, *Managing Quality: A Practical Guide to Customer Satisfaction*, Response Books, New Delhi, 1999, pp. 226.

The necessity and the importance of quality in any sphere of activity can never be over-emphasised. Developments of concepts, principles and their applicability have witnessed a consistent growth. Basic principles

propounded by Juran and Daming have been explained and developed into specific tools. Be it application of statistics for understanding and improving the capabilities of a process or a much larger concept of TQM practised by Bill Creech while transforming Air Tactical Command (ATC) which resulted in a spectacular performance in the Kuwait war.

The present work *Managing Quality: A Practical Guide to Customer Satisfaction* by D.B.N. Murthy tries to document specific learning with an attention focused on customers. However, the 'customer' has not been defined in any specific terms. It is presumed that the reader will have to identify these customers within or outside his business or activity. The book has fourteen chapters starting with the one on Quality Imperative that includes specific cases aimed at establishing the importance of quality. The basic requirements for quality cover a larger range starting with the building and ending with the environment, etc. These are the suggested necessities that may or may not be applicable to every situation. Depending upon the field of activity, size of enterprise, financial strength, location and the commitment to social environment, decisions will have to be taken. It seems the focus is more towards well-structured large-scale industries and organisations rather than on small and upcoming owner-manager kind of enterprises. However, how these facilities, if implemented in totality, are going to contribute to the customers' satisfaction is left to the wisdom of the reader.

The linkages of the expectation of an organisation from the employee and the underlying process of staffing (recruitment of workmen, supervisors/technical personnel, management trainees and CEOs) are considered essential ingredients for achieving quality products and service. Problems of small-scale industries such as larger turnover of personnel, unprofessional ways like absence of an open environment are some of the identified problems. The author writes, 'Management should initiate confidence and trust building measures ... both the employees of the management should work united and purposefully to the satisfaction of the customers' (p. 49). To achieve this through training and motivation, the author suggests some typical training needs and programmes suited to the requirements of diverse personnel. Motivating the work force to deliver the desired result has been dealt with in a simplistic manner—focusing mainly in getting the right environment, ensuring error-free operation with action such as full proofing, attention to work environment, information sharing and recognition. Quality circle too has been tackled in some detail with a set of do's and don'ts along with team building through group activities. These two chapters mainly draw their

strength from the author's belief that the environment of the people and the approach of the owners/top executives ensures quality products and service delivery to customers. Zero defect programmes and suggestion box schemes are seen as a management initiative in this context. The author summarises that it is the management who 'should provide leadership on quality' and must own the responsibility of 'provid[ing] the means for its employee to do quality work'.

The product designing, based on customers' requirement that the present and future needs are the guiding factors, is important for achieving customers' satisfaction. All these activities have been included in the chapter devoted to quality research and development. The design, which can be economically converted into safe products considering the ease of manufacture, of operation and maintenance, is seen as desirable. Quality of raw material going into manufacturing, and the features like extensive checks are also considered necessary for avoiding poor quality products from reaching the customers. Some suggestions forwarded to ensure quality are the proper selection of vendors, rating the vendors, having provisions for vendor-locked capital, etc. The quality organisation has also been discussed in great detail. However, this may or may not have many takers. The present day concept requiring quality to become a concern for everyone comes in conflict with a separate set up for quality. A specialised small group to work as in-house consultants may be more effective and economical for achieving quality in organisation. The author also suggests 'to make production personnel directly responsible for the quality of their work output' (p. 161). This must extend to each and every section of the organisation making people responsible for quality work output.

The book covers many other micro issues. These include organisations having policies on quality, having quality objectives and competition for quality. These are useful tools for focusing attention and getting people involved. International quality competition such as the Malcolm Baldrige Quality Award, the Deming Quality Prize and national awards such as the Rajiv Gandhi National Quality Award, Productivity Council Award, NIQR Awards, has also been indicated.

Total Quality Management philosophy and its working through a four-staged approach, namely—setting quality standard, appraising conformance, acting on achievement and resetting the standard for improvement has also been discussed in detail. The author also indicates some of the hindrances. Highlighting that 'TQM works through people, awareness, commitment and attitude' (p. 180) the author shows

his commitment towards employees. Business and benchmarking also find a suitable place in all the discussions. The author opines, 'TQM is an integrated approach in which management leads installing systems and procedure and creating proper environment. TQM demands that people are treated as valuable assets and the organisation which is able to create a culture of quality is more capable towards achieving customer satisfaction' (p. 183).

The definition of a customer and his position in the development also play a significant role. Techniques like ensuring vendor quality and developing vendor relationships creates a 'win-win situation'. This also finds a suitable place along with other modern methods like Enterprise Resource Planning (ERP), Just in Time (JIT). Production quality, focusing on viability factors, process control and efforts made for quality and productivity improvement through planned activity, increases customer satisfaction. The production activity is considered a link between R&D and the customer and its contribution towards quality is paramount. In order to ensure production and process reliability, various indicators and authentic tools are required so that corrective actions are taken well ahead of time so as to avoid rejection and reworking. The standard set of quality control tools namely, histograms, graphs, scatter diagrams, Pareto diagrams, cause and effect diagrams and control charts are also discussed in detail. Sampling schemes and process capabilities also find a place alongside the Plan-Do-Check-Act (PDCA) cycle. The author, however, warns that, these techniques are mere tools and hence shall not improve quality on their own. When or how these tools are to be used is the all-important question, which needs to be explored in greater detail, and hence shall require external inputs.

The cost of quality, its audit and certification has been covered in the ninth chapter. An organisation attending to these issues achieves the desired level of standardisation. This would help them to have an edge over others particularly those who do not consider these as important aspects. The cost one incurs in ensuring quality through prevention, appraisal and failure makes an organisation achieve the overall objective of reducing costs. The quality audit concept developed by Juran has been further developed by the author. He introduces the fourth factor—the financing and quality audit concept. Effective quality audit and quality certification is found necessary not only to understand and ensure the organisation's own systems and procedure but also is an effective tool which shall convince customers of the quality of the product and service that is being offered. Standardisation with

attention to cost goes a long way in reducing inventory thereby reducing cost. The customer too enjoys certain rights. The law protects these. Customer protection is now a serious business wherein the producer of a product or service is liable to be accounted for. Various Acts like the Drugs and Cosmetics Act, Standard Weight and Measures Act, MRTP Act and many more are brought into force to safeguard the interest of the customers. Complaint handling and designing warranty of product and services are seen as tools to gain customers' acceptance. The issue of product liability—a new concept in the Indian market has also found a suitable place in the book. The author suggests building customer services that can be called 'comprehensive cradle-to-grave services'. These quality concepts are also applicable in the service industry. The measurement of quality, attention towards improvement are a few examples of the service industries. These are included to highlight the learning point. The author goes on to suggest performance indicators for various services suggesting that 'the techniques of quality control applicable in manufacturing sector may be usefully deployed to increase customer satisfaction' (p. 123) in the service sector also.

The last chapter on the future of quality dwells upon certain strategies. These include customers' satisfaction—which can be achieved through planning the basic facilities, inculcating a people-oriented management practice, using research and development for product design, paying attention to quality of inputs and the production system, etc. The quality trends include aspects which already exist in many developing countries. However, they are beyond most of the production and services industries in India. The author suggests that producers must pay adequate attention to their own organisations making them adopt these aspects so as to impact upon their immediate environment thereby reducing cost. Identifying customer expectations and meeting them through corporate quality culture will be an important factor for customer's satisfaction in the years to come. The book closes with the phrase 'customers' satisfaction will be the key to growth and profitability' (p. 222).

The subject of quality and customer satisfaction is too wide a subject to be handled in detail within a single book. The author's effort to cover such a wide topic within the ambit of this book is undoubtedly laudable. However, the reader will have to work hard so as to seek information on specific areas on his own. In some cases even expert assistance in selecting, adopting, implementing and managing the specific initiative would be required. The book, therefore, can be taken as an essential reading for

an entrepreneur who is presently debating on how to embark upon his journey on quality.

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A.K. SRIVASTAVA

P.S. Palande, *Coping with Liberalisation: The Industry's Response to New Competition*, New Delhi: Response Books, 2000, pp. 377.

The book starts with a historical perspective of the Indian experiments in structural adjustment. It basically talks about the evolution of the industrial policies of India starting from independence to the new economic policy of 1991. The first chapter is a synopsis of the events in the history of industrial India leading to a situation where the government was pressurised to sign the Structural Adjustments Package (SAP). The chapter is a vivid description of how India started as a liberalised industrial state ascribing to a mixed economy and how it became a controlled economy ruled by licenses and then went into liberalisation in a phased manner. The chapter also gives a brief note on the impact of liberalisation on other areas like labour, financial services, infrastructure, trade, external borrowings, forex reserves, fiscal policies, foreign investment and technology, all of which is the back bone of industrial development. The chapter also briefly delves into the political fall out due to the industrial policy shifts.

In the second chapter the author talks about the steady removal of controls on industry through relaxation of FERA, amendment of MRTP, strengthening of BIFR, relaxation of foreign investment norms, relaxation on import of capital goods, SSI policy and public sector reforms. This chapter reveals how each of the above mentioned points were beneficial to the industrial health of the country in the post-1991 era. The author has very effectively put across the message that removal of restrictions along with other policy measures ensures growth of industry.

The third chapter discusses various policy initiatives taken by the government in conjunction with the removal of restrictions on the industry, so as to create an atmosphere conducive for industrial development. This chapter enumerates the changes in trade policy, labour policy, financial policy, fiscal policy, financial service reforms and infrastructure reforms and incentives provided through these changes and reforms.

Dr Palande, in this chapter also highlights the lacunae in the policies which is leading to industrial growth rates lower than expected due to illogical sequencing of policy initiatives and also due to constant trial and error method adopted by the government.

Dr Palande has centred the crux of his argument in the fourth to the sixth chapter. Here he talks about the sudden induction of competition in the industry, the anxieties faced by the industry and the responsibility of the industry in facing the competition. He has very effectively included the strategic management perspectives and micro-economic perspectives into the macro-environment perspective for the industries. He aptly points out that some of the fears of the industry were exaggerated and then has tried to bring out the beneficial aspects of increased competition in terms of increased resources, new technology, increased efficiencies, etc. He also prescribes certain corrective action so as to improve the competitiveness of Indian industry through development of infrastructure, globalisation, reengineering and reorganising businesses and investment in human knowledge.

In the fifth chapter Dr Palande mentions some strategies adopted for coping with increased competition from both internal and external environments. He talks about management style changes, changes in making strategy, technological changes, human resource management, etc.

He brings out the industry's micro-level adjustments to changes in macro-environment. His analysis of the family business and strategies for SSIs is an excellent piece of reading. He also suggests action points for the industry at the end of this chapter, which are very logical. The action points however are now a bit outdated considering the time elapsed after the writing of the book.

The sixth chapter talks about the rightsizing of companies and looks at the core competencies of the individual companies. Here the author has given examples of industrial groups that hired out units, which were not within their core competency. This makes for interesting reading, as some of the examples mentioned in the book have been points of discussion and controversies.

The last three chapters talk about government actions for the private sector, the public sector and for overall growth of the economy. He talks about the government action and how these actions fell short due to unstable tenures of the government and lack of political will, both in terms of private sector policy as well as disinvestments in the public sector. In the last chapter, he talks about regaining the momentum for growth if the government has the political will to do so. However, looking

at the current situation of the government and the spate of scams in various sectors the momentum for growth does not seem to be picking up.

Overall, this is an interesting book to read. The book is written in very lucid language in such a manner that it can be read for leisure and study as well. The book is a must for students of the economic and industrial history of India. The book shows the in-depth knowledge of the author about the Indian economy. The quotations of various industry leaders, from various magazines are also placed aptly to supplement the author's views on the points being discussed and go to show that the book is well researched.

The book may however seem a bit outdated considering that it discusses the period in economic history up to 1997–98 only. However, the action points for industry, government and policy makers suggested by the author and the subsequent changes in the policies and government decisions leaves the reader with a feeling of *deja vu*. The book is critical on the action of the government and industry and hence judgemental to that extent. However, the judgements by the author are fair and subsequent events in the economy and industry have also proved the correctness of the author's judgements.

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UMESH MENON

Reidar Dale, *Evaluation Frameworks for Development Programmes and Projects*, New Delhi: Sage Publications, 1998, pp. 151.

There were no set parameters for the evaluation of development programmes and projects available before. Evaluation of development programmes and projects was promoted and formalised ever since the 1960s. The donor agencies took the lead in this formalisation process. The donors wanted an objective analysis to be done by an independent person using various standardised procedures of data collection. In most cases this was done using a quantitative approach. Over a period of time, alternative approaches emerged for evaluating the development programmes and projects. At the same time, the issue of rationality in evaluation also got significance.

At the conceptual level, evaluation is normally seen to focus on beneficiaries of the developmental programmes and projects. The

process of evaluation is initiated either during implementation or sometimes soon after the programme concludes. External and internal factors are taken into account during such evaluation. Specific economic, social, cultural, institutional, technical factors are analysed for providing explanations to various findings. The range of evaluation varies from general perspective to evolving frameworks for practitioners to advance methodologies of evaluation.

With this background, the book under review deals with various aspects of evaluation in the context of organised development works that are generally referred to as 'development programmes and projects'. The book is divided into four chapters. The first chapter focuses on the contextual background of evaluation, the second chapter deals with perspectives and variables of evaluation, the next two chapters deal with managing evaluations and methods adopted for evaluation, respectively.

In the first chapter on conceptual framework the author makes an effort to differentiate between project and programme. A project according to the author is a planned intervention aimed at achieving a specified objective. This is achieved through encompassing a set of interrelated activities that are undertaken during a specified period of time using limited human, financial and physical resources. A programme on the other hand has been conceptualised as less specified and a commonly more comprehensive activity with diverse intervention.

The author has made an effort to clarify various terminologies—appraisal, monitoring and evaluation. Appraisal, to him, is a critical examination of a proposal. Monitoring on the other hand is an effort that aims at meeting information requirements for the management of an ongoing programme or a project. Evaluation, another very important terminology is a thorough examination of a programme or project or any of its parts at a specified point of time so as to measure the change that has come through. The major points for consideration in any impact assessment according to the author are efficiency, effectiveness, relevance, replicability and sustainability. Evaluation, the author mentions, can be both formative and summative. The author also explains this. According to him formative evaluation aims at improving the performance of the programme. In such cases the project learns from such experiences. Summative evaluation on the other is undertaken after the programme or project has been completed for the purpose of judging their appropriateness, their design and management. Evaluation thus can focus on issues that fall within the programme only, i.e., issues of an overriding nature.

The author has also in his book explained the project matrix often referred to as the logical framework analysis (LFA). He considers this tool as a tool for structuring the aims and components of a project. He understands the tool as one which is often helpful for clarifying issues of evaluation.

The second chapter explains the variables of evaluation further. These variables are with reference to LFA. The author understands the main variables of any evaluation as efficiency, effectiveness, relevance, impacts, sustainability, replicability and cost-benefit ratio. The cases developed by the author on evaluation of the programmes draw conclusive evidences too and show the use of evaluation in the empowerment process.

The third chapter discusses the management of the evaluation process. The analytical steps in the process of evaluation that include recording situations, examining relations, stating assumptions of cause and effect and drawing conclusions are explained in detail. In this background, four models of evaluation have been explained to portray a framework of the process of evaluation. The first model of evaluation has the pre- and post-project analysis. The second model has the baseline information recording. This is done at two stages. The third model speaks of data recorded at the time of evaluation and simultaneously corresponding information before initiation of the project. The author then goes on to describe the formats that could be used to prepare a comprehensive evaluation report.

The fourth chapter discusses in detail the various methods commonly used in evaluation. The sources as well as the approaches of evaluation, i.e., quantitative and qualitative, are also discussed. The experimental design, quasi-experimental design, statistical design without control groups and cost-benefit/cost-effective analyses have been conceptually clarified in the background of the quantitative approach. Similarly, the techniques of in-depth case study, rapid assessment and participatory assessment have been clarified with reference to the qualitative approach.

In brief, the book deals with the interconnected analysis of evaluation by highlighting the perspectives and types of planning that constitute the basis of any organised development programme and project. It connects the various elements of the project cycle, i.e., planning implementation, monitoring and evaluation. The effort is to clarify the purposes, the aims of evaluation, and incorporate the factors of organisation and management thereby presenting a range of methods that may be used in evaluation. All the chapters are interrelated in a systematic and logical order.

Though the frame of reference of the book is developing countries, the ideas and arguments related to concepts and methodologies find a

wider applicability. The author could have avoided the highly scientific and technical terminologies. This book is useful for development professionals, evaluators, planners, managers, administrators, researchers and social sector students. The book is easy to read. It is equipped with a categorical bibliography on different aspects of evaluation, has a combined subject-author index and contain figures, boxes, tables, references and footnotes in the main text—indicators of a reader friendly book.

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NARESH SINGH

K.G. Karmakar, *Rural Credit and Self-Help Groups: Micro-finance Needs and Concepts in India*, New Delhi: Sage Publications, 1999, pp. 375.

The rural population is a major segment that constitutes 74.3 per cent of the total Indian population. The rural population depends primarily on agriculture and associated activities for their livelihood. Due to the failure to bring in suitable reforms in the agricultural sector through incorporating a farmer-oriented agricultural policy, the growth in this sector has seen a decline over the years. The contribution is down from 56.5 per cent of GDP in 1951 to 31.7 per cent of GDP in 1993–94. In spite of all, even today the rural economy continues to provide a strong base for employment generation. It also remains at the top of private sector investment. In light of these strengths one does see the need for a sustainable agriculture and an efficient rural credit system. Gaps in rural infrastructure and in the rural credit delivery system are however the missing links and have been understood as the weakest links that have hampered the growth of rural economy.

The multi-agency approach adopted for delivery of rural credit has often led to the poor performance of the rural credit system. Institutional rural credit today meets only a mere 12 per cent of the annual credit requirements of the farm sector. The RNFS (Rural Non-Farm Sector) also suffers from neglect. Even today one finds over 35 per cent of the people living below the poverty line. Similarly one also finds with utter dismay that more than half of the total rural population have remained untouched by the various credit schemes of the banks and that of the government programmes. The high cost of credit delivery and the

interrupted flow of institutional credit has led to the development of innovative and alternative credit systems. The Self-Help Groups (SHGs) approach is a result of these unsatisfactory performances of formal credit institutions. These SHGs have now emerged as a viable credit mechanism and have succeeded in reducing transaction costs for banks and borrowers alike, apart from posting very high loan recovery rates. In addition to these features the presence of a large number of women SHGs has enabled women to have easy access to credit—an empowering mechanism. One does feel a need to replicate such initiatives so as to involve the rural poor in rejuvenating the rural economy and ensure that they do not continue to remain marginalised. It is in this background that the book under review is a timely outcome. The book has tried to explain the micro-finance needs and concepts in India in relation to the rural credit system and SHGs.

The book can be broadly seen to have four parts. The first part explains the problems and prospects of rural credit in detail. The author has provided enough description of existing rural credit system in India, problems associated with credit recycling/overdue and recommendations of various committees. The problems associated with the rural credit system in India such as poor resource base, low business and outreach levels, poor loan recovery performance, poor income margins due to increased management costs and inadequate lending margins have been adequately understood and explained. The obvious solution to many of these problems as rightly mentioned is the credit-worthiness of the borrowers. The author also realises that the time has come when most of these rural credit agencies would have to restructure themselves through reduction in transaction and monitoring costs. The reports of the Agriculture Credit Review Committee (ACRC), 1989, Narasimham Committee, 1991 and Gupta Committee, 1998 have also been analysed. The author has substantiated his basic argument through empirical data collected from Dharwad district in Karnataka with special focus on non-institutional sources of credit. The interesting feature noted being that rural non-institutional credit sector has low transaction costs, which gives them an edge over the formal rural agencies.

A thorough analysis of micro-finance needs finds adequate representation in the second part. The author has tried to analyse these needs for various sections—tribal people, rural non-farm sector, rural women and micro-entrepreneurs. The author has also brought in other issues of subjugation of various groups and has tried to capture these issues in relation to the credit requirement. The case of the tribal people and the

effects of various processes and the ultimate effect has been understood very correctly. The author opines that economic activities of the tribal people should be linked with Large-sized Adivasi Multi-purpose Societies (LAMPS).

The author argues for the potential of the Rural Non Form (RNF) sector in employment generation. Enough data has been provided to establish this argument. In light of this potential the author is right in his opinion that one needs to relook at the credit requirement of the RNFs particularly those which are initiated by women.

The third section deals with the role of SHGs. Concepts and functions of SHGs with special reference to the Bank for Agriculture and Agriculture Cooperatives (BAAC) system in Thailand and Grameen Bank in Bangladesh are explained in detail. The promotion of the SHG concept and building the capacity of SHGs, developing linkages with banks and other agencies are seen as the roles expected out of the NGOs. The author has recommended the mediator and facilitator role for the NGOs. After making an assessment of SHGs in India, their linkages with banks, analysis of various policy issues the author feels that there is a need to replicate the BAAC and Grameen Bank concepts in the Indian scenario. The author argues that such replication would be beneficial to the rural poor and marginalised.

The final section has tried to develop strategies for a sustainable rural credit delivery system. The author emphasises the need for designing appropriate systems for micro enterprise. He recommends that besides improving the management (technical, cosmetic, desperate and outright fraud), full-hearted attempts would also be necessary particularly when one needs to link SHGs with banks and other formal credit agencies.

This book is equipped with valuable suggestions. The simple language and the flow is attractive. The book has also come out at an appropriate time. This book is useful for the professionals associated with banking, rural finance, agriculture, economics, rural development. It is a treasure for all those who are associated with the rural credit delivery system—researcher, academican, trainer, practitioner and policy maker.

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NARESH SINGH

Abstracts

Prepared by Sanjay Pal, Entrepreneurship Development Institute of India, Ahmedabad.

We publish, in this section, brief abstracts of significant papers appearing in other journals. Authors are requested to send copies of their papers, published elsewhere, for this purpose.

Bengt, Johannisson and Morten, Huse, 'Recruiting Outside Board Members in the Small Family Business: An Ideological Challenge', *Entrepreneurship & Regional Development: An International Journal*, vol. 12, no. 4 (October–December 2000), pp. 353–78.

The focus of this paper is to explore how contrasting ideologies influence the selection process of outside directors in the small family business. Small family businesses do not just represent small-scale economic activity but they are the outcome of entrepreneurial ambition and family involvement. This means that willpower and emotional commitment blend with calculative considerations. As emotional as well as cognitive constructs, the family, management and entrepreneurship each represent an ideology: paternalism, managerialism and entrepreneurialism. The proposed ideological framework is positioned against alternative approaches to the study of board selection processes. Two sets of data are presented. A piloting survey of twelve family businesses in Sweden is used to substantiate the theoretical assumption that entrepreneurial firms avoid having outside directors and managerial firms welcome outside directors, leaving paternalistically run family business ambivalent. Repeated in-depth interviews in two family businesses, one founder-managed and entrepreneurial, the other established and traditional, reveal how the professionalisation of the board enforces managerialism, challenging thus far dominating ideologies, entrepreneurialism and paternalism. The outcome of this ideological context, if properly orchestrated, is an energised and more competitive family business.

The study has implications for practice and research in several ways. First, while most studies of the board of directors are input–output analyses not exploring what matters most—actual board behaviour that

has interest beyond the academic community—this study has provided insight that may be helpful also to practitioners in addition to broadening the theorising about family businesses. The dilemmas that small business owner-managers encounter are presented, and the role of outside board members in the solution to such dilemmas is discussed. An active board with non-executive directors may prepare the business to orchestrate and exploit the creative tensions between entrepreneurialism, paternalism and managerialism. Besides expecting a continuous 'friendly competition' and 'constructive tensions' between the three ideologies, the paper imagines the possibility of empirically finding further configurations such as one ideology dominating the others, ideologies taking turns as the business develops, or the creation of different reserves in the organisation for each ideology. The last case can be illustrated by the situation where the traditional, paternalistically run family business is forced by its bank to appoint an external board member. This may be coped with by restricting the managerial logic to the formal board meetings.

Second, the study has provided rationales for recruiting non-executive directors in small family businesses. The cognitive and emotional profile of entrepreneurial and paternalistic businesses has received particular attention. Keeping in mind that entrepreneurs value independence very highly, we have seen that this assumption has to be qualified. Entrepreneurs in particular may defy any definitive control, including that of a formal board. If entrepreneurs eventually do decide to extend their board of directors with external members, they are expected to do so decisively. Traditional, paternalistic businesses protect their independence as well but may be forced to activate their boards. Whether the introduction of external membership is offensive or reluctant, this may not only favour managerial interests (by appointing, for example, a self-made entrepreneur to the board), both entrepreneurial and paternalistic interests are served as well. Future studies should test these and similar assumptions on large-scale samples using various empirical settings, for example, also cross-country comparisons.

Third, it was found that recruiting outside or non-executive directors may have signalling effects. The signalling involves some kind of monitoring on behalf of external stakeholders, for example, the bank. The board of directors in the small family business may be monitoring by enacting a disciplinary role and by providing competency. This study indicates that banks and other external stakeholders may have the power to initiate dramatic changes in the role of the board of directors in small

family businesses. Further studies should explore how external stakeholders evaluate boards in such firms, and what are the implications of such evaluations. Are the trends changing, and will the banks in future have a more active role in relation to boards in small firms? How will the role of the bank in practice differ from the role of the venture capitalist? Then it has to be kept in mind that the case studies used in this paper demonstrate that professionalisation of the board in the small family business may be a way to control the banks!

Fourth, personal networking is especially important to consider in this context; it invites ideological bridging. Three out of the four respondents in the study explicitly stated that the different ideologies of the board chair and the entrepreneur/patriarch could be interlined because of the 'personal chemistry' characterising their relationships. This notion of 'personal chemistry' seems to go far beyond instrumental trust, shared respect and the fact that similarity attracts. It appears as a factor that makes personal networking generic to the creation and maintenance of the entrepreneurial process. Ideologies, by definition, are phenomena originating in society; the forces they represent can be orchestrated in the interest of the family business by way of reflecting and interacting individuals.

Klaas, Brian S., John McClendon and Thomas W. Gainey, 'Managing HR in the Small and Medium Enterprise: The Impact of Professional Employer Organizations', *Entrepreneurship Theory and Practice*, vol. 25, no. 1 (Fall 2000), pp. 107-24.

Given that small and medium enterprises (SMEs) are increasingly relying on Professional Employer Organizations (PEOs) to provide human resources (HR) services, it is important to understand the conditions under which such reliance results in positive outcomes for client organisations. While outsourcing may often be viewed as an easy solution to HR problems, it is not necessarily easy for SMEs to determine whether outsourcing will be effective for them or how they should manage the outsourcing relationship. By examining the conditions under which reliance on a PEO yields positive outcomes for SMEs, this paper is attempting to generate insight regarding when HR outsourcing is likely to be effective for an SME and how best to manage outsourcing relationships. This study examines the satisfaction levels of 763 customers of one large PEO. Results show that firm growth, past HR problems, work force size, contractual detail, service representative-client

relations, value congruence, and overall PEO usages are significantly related to managerial satisfaction with PEO services.

Using transaction cost economics and social exchange theory, a number of factors were identified which are likely to affect whether HR outsourcing yields positive outcomes for SMEs. The results show substantial support for the hypotheses. There is a positive relationship between the growth rate experienced by an SME and overall satisfaction with PEO services. Of the nine variables examined in this paper (Growth, Past HR Problems, Idiosyncratic HR, Total Employees, Contract Characteristics, Rep-Client Relations, Relationship Tenure, Value Congruence and Current Usage), five were significantly related to both overall satisfaction with PEO and satisfaction with the PEO's role in containing HR costs. The SME's Growth Rate, Past HR Problems in the SME, Contract Characteristics, Value Congruence, and Current Usage of PEO services were all found related to both dependent measures.

In addition, two variables were significantly related to overall PEO satisfaction but not satisfaction with PEO's role in containing HR costs. Specifically, SME size and the Service Representative-Client relationship were significantly related to Overall Satisfaction (but not Satisfaction with Costs). One possible explanation for why differences were observed between the two dependent measures examined in this study relates to measurement issues. For example, SME size would affect costs primarily through reducing the costs associated with having internal staff perform HR activities. However, it may be that when completing the Satisfaction with costs items, respondents focused more on direct HR costs rather than the opportunity costs associated with managerial time.

On the whole, the findings obtained here suggest support for the theoretical predictions offered by transaction cost economics and social exchange theory. Using transaction cost economics, the paper identified a number of firm characteristics likely to affect whether an SME would benefit from the particular set of advantages and disadvantages offered by HR outsourcing. Support was found for the proposition that overall PEO satisfaction and satisfaction with the PEO's role in containing HR costs will be greater among SMEs that are growing rapidly and that have experienced more HR problems in the past. Support was also found for the proposition that the size of the SME will be negatively related to overall PEO satisfaction. The finding supports that SMEs may differ somewhat in their degree to which they might benefit from relying on a PEO.

Transaction cost economics also suggests that the contract is likely to be important in determining whether PEO reliance yields benefits for an SME. The contract is a key mechanism within the context of market-based governance for controlling opportunistic behaviour by suppliers. Consistent with this, it has been found that 'Contract Characteristics' play a key role in determining whether reliance on a PEO results in benefits for the SME. Indeed, Contract Characteristics was the single strongest prediction of satisfaction, both overall and in terms of the PEO's role in containing costs. This finding suggests that while firms may differ in their capacity to benefit from outsourcing HR, there are still mechanisms available to affect whether outsourcing yields the desired outcomes. While incomplete contracting is an inevitable part of outsourcing relationships, the findings suggest the possibility that greater attention to contractual specification might well lead to increased satisfaction with the PEO. It is important to note that in the PEO studied in this paper, contracts varied across different clients. This is the result of negotiations over contract terms between individual clients and the PEO as well as variations in the contract templates that were used across time and across divisions within the company.

Social exchange theory was also used to develop propositions about when reliance on a PEO will produce positive outcomes. Social exchange theory suggests that the nature of the relationship between a buyer and a supplier will play an important role. Relationship factors are likely to affect whether opportunism is observed and the nature of communication between the two parties. As predicted by social exchange theory, four variables were found to be related to overall PEO satisfaction or satisfaction with the PEO's role in containing HR costs. Value Congruence and the Level of Utilisation of PEO services were both found to be significantly related to both dependent measures. Further, while the Client-Service Representative Relationship was not significantly related to satisfaction with the PEO's role in containing costs, this variable was significantly related to overall PEO satisfaction. Examining their standardised 'beta' coefficients can show the importance of these social exchange variables. While the relative magnitude of the 'beta' for Current Utilisation and the Client-Service Representative Relationship was relatively modest, the 'beta' for Value Congruence was second in size only to that for Contract Characteristics.

Shepherd, Dean A., Richard Ettenson and Andrew Crouch, 'New Venture Strategy and Profitability: A Venture Capitalists Assessment', *Journal of Business Venture*, vol. 15, no. 5/6 (September–November 2000), pp. 449–67.

Although scholars have long recognised the increased mortality risk that new ventures face in terms of a 'liability of newness', most of the discussion around this risk has been in terms of the contextual constraints that new ventures face and the difficulties that managers have in overcoming them. This emphasis is in part a reflection of the perils of newness but also stems from the retrospective and aggregate perspective taken by researchers. Although the macro-level perspective of new venture mortality has made a significant contribution to our knowledge of mortality risk, there has been little interest in identifying how venture managers can address the risks that all new organisations face. This is a regrettable oversight given that it is unlikely that new ventures commence with the explicit expectation of failure. On the contrary, venture capitalists and managers go to great lengths to improve the prospects of success of the projects they support, and it is reasonable to think that they are not just indulging in 'wishful thinking' by doing so.

This paper focuses on the common emphasis of prior research—informational limitations of new ventures—and suggests that new venture novelty is a multidimensional phenomenon and that this novelty and the ignorance that goes with it are manageable aspects of new ventures. The theoretical model proposed in this paper increases our understanding of the mortality risk of new ventures at the organisation level and investigates the relationship between novelty and mortality risk in terms of both an 'evolutionary' mortality risk path and a 'strategic' mortality risk path. Specifically, it proposes that mortality risk depends positively on the degree of novelty in the market, production and management. In turn, novelty in three technology dimensions depends negatively on the passage of time, due to passive diffusion of information, or learning by doing, in each dimension. The rate at which information diffuses should be expected to differ in the market, production and management, so the mortality risk function should have separate terms relating to the learning rate in each of these novelty dimensions. Mortality risk, arising from novelty in each dimension, may also be reduced through risk reduction strategies and may be positively or negatively impacted by unexpected shocks and/or reversals in any of the novelty dimensions. The relationship between specific risk reduction strategies may be additive and/or

multiplicative in their impact on mortality risk. One can probably expect that some risk reduction strategies, such as entrepreneurial education, would have a direct effect on reducing the ignorance of managers, plus an indirect impact on the learning rate in each dimension, as education acts as a catalyst to the learning process. Further, a risk reduction strategy may have a different effect on each of the novelty dimensions, for example, a positive effect on (reduction of) consumer novelty, neutral on production novelty and negative on management novelty.

This paper's model of mortality risk for a new venture did not include a discussion of an industry effect. However, it is expected that mortality risk depends on the technological complexity of the particular industry into which the new venture enters. It may be more risky, other things being equal, to start a new venture in the health or medical field, than it would be to start a new venture in electronic consumer durable goods, for example, due to the profusion of legislative and regulatory obstacles in the former. We also expect it to be more risky to enter a 'more competitive' market (that is, where at least some firms already know that the management technology and competitive pressures serve to keep margins low and induce highly competitive marketing behaviour) as compared to a less competitive market. Thus, for a given industry, a new venture may face more stringent competition from incumbent businesses in one geographic region, or product niche, than it would in another. These considerations enter the mortality risk function via the additional demands they place upon management technology in more complex industries and more competitive markets (not to mention the wisdom of choosing to enter such an industry in the first place). The combined needs for risk reduction will also differ depending on the timing of entry. The balance of capabilities needed for success as a pioneer will differ from those required of a later follower—each case requires different skills and risk reduction strategies.

Due to research interest in new venture failure and the practical importance of increased understanding in the causes of failure and the actions that can be taken to reduce it, a significant contribution could be made by empirically testing all or part of the model proposed. This requires the operationalisation of the key variables, namely, mortality risk, market novelty, production novelty, and management novelty. There may be many ways to operationalise these constructs.

Mortality risk was typically measured at the population level, although it was required at the organisation level here. One alternative may be to use experts to assess the mortality risk of a new venture at

various stages of its life. An example might be to ask venture capitalists to assess a new venture's probability of survival, or bankers who often assess a business' risk premium. Although researchers must distinguish mortality risk from other decision criteria bankers may also use to determine a risk premium. Another operationalisation of mortality risk might arise from using established accounting failure ratios to analyse a new venture's financial statements and calculate the probability of failure—the higher the probability of failure, the higher the mortality risk.

Measures of novelty might come from surveying key people within the market (for market novelty), production (for production novelty), and management (for management novelty). Objective measures may also be appropriate—management novelty might include the number of years of experience in this industry or a related industry or the number of 'start ups' in which the management team has been involved. Of course, these operationalisations can be combined to provide triangulation of the measure. In sum, this paper provides a model of mortality risk arising from a multidimensional perspective of novelty and argues that the decisions and actions of the new venture manager can influence an 'evolutionary' mortality risk pattern.

Pitt Leyland F., and Rushieda Kammeyer, 'The Role of Adaptation in Microenterprise Development: A Marketing Perspective', *Journal of Development Entrepreneurship*, vol. 5, no. 2 (August 2000), pp. 137–55.

The entrepreneur's willingness to adapt key marketing mix variables impacts on the performance of the venture. However, this phenomenon has not received a great deal of research attention. This paper explores the concept of adaptation as it applies to marketing efforts of the start-up entrepreneur, in order to determine whether traits commonly associated with the entrepreneurial personality are associated with the successful adaptation of one's business. A conceptual model is developed to guide the study and results are reported of interviews conducted with a sample of historically disadvantaged South African entrepreneurs. Support is provided for the conceptual model, and it is suggested that tolerance of ambiguity and an internal locus of control are positively related, and risk-taking is negatively associated with adaptation of marketing strategy.

In general it can be concluded that firms surveyed in this study demonstrate a moderate to significant amount of adaptation of marketing

strategy. This is to a considerable extent consistent with the findings of Timmons who contends that high levels of uncertainty require flexible and adaptive approaches to organisations. Further, while there was variance, the previously disadvantaged South African entrepreneurs tended to have more of an internal locus of control in order to be treated as moderate risk takers. The findings support the argument for the conceptual model linking the personality traits, intolerance of ambiguity, locus of control and risk-taking propensity with adaptation of marketing strategy. It should be borne in mind that the focus of this research is on the cognitive and personality variables and whether they influence behaviour, holding all environmental variables constant.

Black South African entrepreneurs have had to overcome a long history of obstacles and constraints, well beyond those encountered by the typical entrepreneur in Western countries, and indeed in most world markets. The study focused on successful, formal sector entrepreneurs. The odds against blacks have been much greater in the formal sector compared to the informal sector, which is the venue where most black entrepreneurship occurs in South Africa. Given this, the fact that these individuals demonstrated significant adaptability is not surprising. However, the consistent link between certain personality characteristics and adaptation would reinforce the importance of the entrepreneur's background, family upbringing, role models, educational experiences, and related life experiences, and the extent to which these background variables reinforce an internal locus of control, a comfort level with ambiguity, and willingness to examine risk factors and take calculated risks.

Marketing strategy must profitably capitalise on a given opportunity, but the extent to which a given strategy will do so is to a large extent a function of its adaptation. It may be more beneficial to have a strategy that merely accords with an opportunity and then proactively adapt it as things evolve, than to have a perfect strategy that is inflexible. Marketing mix examples of this type of rigidity might include positioning a company around a fixed product line that includes a mix of two deep product lines and two support services, and the corresponding personnel, capital equipment, inventory and facilities necessary to sell those particular products and services. It might include a long-term tie-in with a particular distribution channel, the hiring of a personal sales force, overly aggressive pricing early on that leads to a particular image, and any number of other marketing mix alternatives. Adaptation may well be associated with the marketing concept, which in recent conceptualisations is approached in terms of gathering, disseminating, and acting

upon market intelligence. Alternatively it might imply a willingness to shape markets by means of technology, to interact with markets, and even to isolate the firm from technology and markets.

While exploratory in nature, this work provides direction for future research. Obviously the sample size needs to be expanded, for with a larger sample further insights into the various variables may be generated. Very little research has been done on female or black entrepreneurs in South Africa. It may be of value to explore the personality traits of black and female owners to see whether their tolerance of ambiguity, locus of control and risk-taking propensities are significantly different, given their different educational background and life experiences. One could more precisely define the sample size in terms of stages of growth and size of the organisation, for it may well be that adaptation is influenced by age of the venture and experience in a particular industry. The impact of environmental factors on behaviour also warrants attention, and it may be appropriate to develop a model which is more interactive, that takes into account the impact of the entrepreneurial personality as well as the impact of the environment on the behaviour of entrepreneurs. Intolerance of ambiguity warrants further investigation, particularly the relationship between environmental turbulence, intolerance of ambiguity, and the degree of adaptation of the business. It would be insightful to assess levels of market orientation and the mode of operation in terms of the strategic focus of the organisation and then connect these to both the predictive and outcome variables used in this study. Finally, more work is needed in developing and validating the measure of adaptation, and ascertaining the underlying dimensionality of this construct.

Veliyath, Rajaram and Kannan Ramaswamy, 'Social Embeddedness, Overt and Covert Power, and Their Effects on CEO Pay: An Empirical Examination Among Family Businesses in India', *Family Business Review*, vol. 13, no. 4 (December 2000), pp. 293-311.

The literature on CEO compensation reflects two common biases: (a) dominant use of the agency theory perspective, and (b) the almost exclusive use of US and UK samples. Agency theory views compensation as a consequence of the incentive contracts and the processes of corporate governance. However, little is known about the determinants of CEO compensation in developing countries. Considering that foreign direct investment of US multinational enterprises increased ten-fold over the

past decade, mostly in developing economics, there is a great need to understand the dynamics of pay setting in these foreign contexts. Overall, there is an imperative need to explore alternative theoretical perspectives as well as investigate non-traditional contexts to broaden existing theoretical premises.

In an attempt to address this need, this study investigates the CEO's social embeddedness and overt and covert power as determinants of CEO pay in a sample of Indian family-controlled firms. Using a time-series, cross-sectional regression analysis, we find family shareholding and the percentage of inside directors on the board (identified as bases of overt power for the CEO) to be the predominant influences on CEO pay. By contrast, some of the identified bases of covert power, such as the CEO's tenure, age, education, and firm diversification, are not significant. Surprisingly, controls for firm size and performance also exhibit no influence on CEO pay. These findings offer a useful point of reference against which results from Western studies can be compared to formulate more holistic theories of CEO pay.

The results of the study offer some interesting insights regarding the appropriateness of commonly cited corporate governance practices. For example, CEO duality, which is widely interpreted as being associated with the reduction of board autonomy and objectivity in Western studies, had no impact on CEO compensation in the Indian family business sample. Perhaps the family's direct ownership of significant stock in the company, significant amounts of cross-ownership of shares by other businesses controlled by the same family, as well as direct interlocking boards reduce the scope for opportunistic behaviour by CEO-chairpersons. Most Indian boards have traditionally been packed with uncles, cousins, or loyalist caretakers. Such appointments are made in India on the basis of connections, social status and trust rather than purely on merit. Such a basis for appointments must be considered when drawing up regulatory guidelines for boards and when formulating 'best practice' recommendations.

From an accounting standpoint, the close interdependence of the lifestyle of the owners (i.e., the family) with the prerequisites that the business provides, necessitates a fresh approach when examining the financial statements of family-owned businesses. Traditional financial ratios may not apply or may need to be interpreted in a more subjective light based on the unique characteristics of each business. As mentioned earlier, CEOs of Indian companies are provided a large number of perquisites, which enable them to maintain comfortable

lifestyles without having to pay taxes on their monetary equivalents. Accordingly, accountants need to work with interested family shareholders when they are preparing the books for such businesses. However, as Indian capital markets continue to develop and as more family enterprises approach them for access to fresh capital, there is also an emerging recognition of the need for greater transparency in the reporting of managerial salaries, perks and benefits.

Family-owned businesses are also interested in retaining control of the crown jewels within the family. This is an important consideration that affects decisions ranging from raising new capital to succession planning. As mentioned earlier, family groups often loan money to and act as venture capitalists, friendly bankers, or angel investors for sister companies in the group. Such actions are frequently motivated by the desire to maintain management control of these units within the family. Moreover, Indian public shareholder activism is nowhere near the levels seen in the United States. Financial planning consultants who work with Indian family groups need to be sensitive to these issues.

In matters relating to accession to the CEO's (or other top management) positions, merit may not be the only consideration, especially when an heir apparent or an anointed representative of the controlling family is being groomed to take over the reins of the enterprise. Human resource consultants ought to build such considerations into their succession planning and career development frameworks.

Finally, as the Indian economy continues its process of transition from an insular to a globally integrated one, there is an increasing realisation of the need to focus on developing the core competencies and capabilities of different business units. This necessitates a greater reliance on professional managers and the need to 'keep the family on board, but off management'. There is great quibbling about how this ought to be done and how to compensate the family.

Such issues are especially critical in India because of the preponderance of the family-owned economy; of the top ten Indian companies by market capitalisation, five are family owned. These issues present some of the interesting practical challenges that Indian businesses face as the globalisation of the Indian economy proceeds at an accelerating pace.

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